

SENATE BILL NO. 466

INTRODUCED BY J. BOHLINGER

A BILL FOR AN ACT ENTITLED: "AN ACT ENACTING A 4 PERCENT SALES TAX AND USE TAX; ALLOWING CERTAIN SALES TAX AND USE TAX EXEMPTIONS, INCLUDING UNPREPARED FOOD ITEMS, MEDICAL ITEMS, DRUGS, UTILITIES, SALES AT THRIFT STORES, AND ESTATES SALES; PROVIDING FOR DISTRIBUTION OF SALES TAX AND USE TAX REVENUE; AUTHORIZING THE DEPARTMENT OF REVENUE TO ENTER INTO THE STREAMLINED SALES AND USE TAX AGREEMENT; IMPLEMENTING APPROPRIATE PROVISIONS OF THE STREAMLINED SALES AND USE TAX AGREEMENT; PROVIDING FOR A REFUNDABLE INCOME TAX CREDIT FOR LOW-INCOME TAXPAYERS; REDUCING INCOME TAX RATES BY ONE-THIRD; INCREASING DIRECT STATE AID TO SCHOOLS TO 80 PERCENT OF BASIC ENTITLEMENT AND TOTAL PER-ANB ENTITLEMENT FOR THE GENERAL FUND BUDGET OF THE DISTRICT; ELIMINATING GUARANTEED TAX BASE AID EXCEPT FOR RETIREMENT AND FACILITIES; ELIMINATING THE 95 MILLS LEVIED STATEWIDE FOR PUBLIC EDUCATION; ELIMINATING THE 6 MILLS LEVIED STATEWIDE FOR UNIVERSITY FUNDING; AMENDING SECTIONS 15-1-111, 15-1-112, 15-1-501, 15-10-420, 15-24-1402, 15-24-1703, 15-24-1802, 15-24-1902, 15-24-2002, 15-30-101, 15-30-103, 15-36-324, 17-3-213, 17-7-301, 20-3-106, 20-5-323, 20-5-324, 20-6-702, 20-7-102, 20-9-141, 20-9-212, 20-9-306, 20-9-307, 20-9-308, 20-9-331, 20-9-333, 20-9-343, 20-9-344, 20-9-347, 20-9-351, 20-9-361, 20-9-366, 20-9-367, 20-9-368, 20-9-369, 20-9-501, 90-6-304, 90-6-305, 90-6-309, AND 90-6-403, MCA, AND SECTION 25, CHAPTER 13, SPECIAL LAWS OF AUGUST 2002; REPEALING SECTIONS 15-10-107, 20-9-360, AND 20-25-423, MCA; AND PROVIDING EFFECTIVE DATES AND AN APPLICABILITY DATE."

BE IT ENACTED BY THE LEGISLATURE OF THE STATE OF MONTANA:

NEW SECTION. Section 1. Definitions. For purposes of [sections 1 through 53], unless the context requires otherwise, the following definitions apply:

(1) "Agreement" means the Streamlined Sales and Use Tax Agreement provided for under [sections 54 through 61].

(2) "Alcoholic beverages" means beverages that are suitable for human consumption and contain 1/2 of 1% or more of alcohol by volume.

(3) (a) "Candy" means a preparation of sugar, honey, or other natural or artificial sweeteners in combination with chocolate, fruits, nuts, or other ingredients or flavorings in the form of bars, drops, or pieces.

(b) The term does not include any preparation that contains flour and that requires refrigeration.

(4) "Certified automated system" has the meaning provided in [section 55].

(5) "Certified service provider" has the meaning provided in [section 55].

(6) "Computer" means an electronic device that accepts information in digital or similar form and manipulates it for a result based on a sequence of instructions.

(7) "Computer software" means a set of coded instructions designed to cause a computer or automatic data processing equipment to perform a task.

(8) "Delivery charges" means charges by the seller of personal property or services for preparation and delivery to a location designated by the purchaser of personal property or services, including but not limited to transportation, shipping, postage, handling, crating, and packing.

(9) "Dietary supplement" means any product, other than tobacco, intended to supplement the diet that:

(a) contains one or more of the following dietary ingredients:

(i) a vitamin;

(ii) a mineral;

(iii) an herb or other botanical;

(iv) an amino acid;

(v) a dietary substance for use by humans to supplement the diet by increasing the total dietary intake;

or

(vi) a concentrate, metabolite, constituent, extract, or combination of any ingredient described in subsections (9)(a)(i) through (9)(a)(v);

(b) is intended for ingestion in tablet, capsule, powder, softgel, gelcap, or liquid form or, if not intended for ingestion in such a form, is not represented as conventional food and is not represented for use as a sole item of a meal or of the diet; and

(c) is required to be labeled as a dietary supplement, identifiable by the "supplemental facts" box found on the label and as required pursuant to 21 CFR 101.36.

(10) "Drug" means a compound, substance, or preparation and any component of a compound, substance, or preparation, other than food and food ingredients, dietary supplements, or alcoholic beverages:

(a) recognized in the official United State Pharmacopoeia, official Homeopathic Pharmacopoeia of the

1 United States, or official National Formulary and any supplement to them;

2 (b) intended for use in the diagnosis, cure, mitigation, treatment, or prevention of disease; or

3 (c) intended to affect the structure or any function of the body.

4 (11) (a) "Durable medical equipment" means equipment, including repair and replacement parts for
5 equipment, that:

6 (i) can withstand repeated use;

7 (ii) is primarily and customarily used to serve a medical purpose;

8 (iii) generally is not useful to a person in the absence of illness or injury; and

9 (iv) is not worn in or on the body.

10 (b) The term does not include mobility-enhancing equipment.

11 (12) "Electronic" means technology that relates to having electrical, digital, magnetic, wireless, optical,
12 electromagnetic, or similar capabilities.

13 (13) "Engaging in business" means carrying on or causing to be carried on any activity with the purpose
14 of direct or indirect economic benefit.

15 (14) (a) "Food and food ingredients" means substances, whether in liquid, concentrated, solid, frozen,
16 dried, or dehydrated form, that are sold for ingestion or chewing by humans and that are consumed for their taste
17 or nutritional value.

18 (b) The term does not include alcoholic beverages, candy, dietary supplements, soft drinks, or tobacco.

19 (15) "Food sold through vending machines" means food dispensed from a machine or other mechanical
20 device that accepts payment.

21 (16) "Grooming and hygiene products" means soaps and cleaning solutions, shampoo, toothpaste,
22 mouthwash, antiperspirants, and suntan lotions and sunscreens, regardless of whether the items meet the
23 definition of over-the-counter drugs.

24 (17) (a) "Lease or rental" means any transfer of possession or control of tangible personal property for
25 a fixed or indeterminate term for consideration. A lease or rental may include future options to purchase or
26 extend.

27 (b) Lease or rental includes agreements covering motor vehicles and trailers when the amount of
28 consideration may be increased or decreased by reference to the amount realized upon sale or disposition of
29 the property, as defined in 26 U.S.C. 7701(h)(1).

30 (c) The definition of lease or rental in this subsection (17) must be used for sales tax and use tax

1 purposes regardless of whether a transaction is characterized as a lease or rental under generally accepted
2 accounting principles, the Internal Revenue Code, the Uniform Commercial Code, or other provisions of federal,
3 state, or local law.

4 (d) The term does not include:

5 (i) a transfer of possession or control of property under a security agreement or deferred payment plan
6 that requires the transfer of title upon completion of the required payments;

7 (ii) a transfer or possession or control of property under an agreement that requires the transfer of title
8 upon completion of required payments and payment of an option price that does not exceed the greater of \$100
9 or 1% of the total required payments; or

10 (iii) the provision of tangible personal property along with an operator for a fixed or indeterminate period
11 of time. A condition of this exclusion is that the operator is necessary for the equipment to perform as designed.
12 For the purpose of this subsection (17)(d)(iii), an operator shall do more than maintain, inspect, or set up the
13 tangible personal property.

14 (18) "Maintaining an office or other place of business" means:

15 (a) a person having or maintaining within this state, directly or by a subsidiary, an office, distribution
16 house, sales house, warehouse, or place of business; or

17 (b) an agent operating within this state under the authority of the person or its subsidiary, whether the
18 place of business or agent is located within the state permanently or temporarily or whether or not the person
19 or its subsidiary is authorized to do business within this state.

20 (19) (a) "Manufacturing" means combining or processing components or materials, including the
21 processing of ores in a mill, smelter, refinery, or reduction facility, to increase their value for sale in the ordinary
22 course of business.

23 (b) The term does not include construction.

24 (20) (a) "Mobility-enhancing equipment" means equipment, including repair and replacement parts, that:

25 (i) is primarily and customarily used to provide or increase the ability to move from one place to another
26 and that is appropriate for use either in a home or in a motor vehicle;

27 (ii) is not generally used by persons with normal mobility; and

28 (iii) does not include any motor vehicle or equipment on a motor vehicle normally provided by a motor
29 vehicle manufacturer.

30 (b) The term does not include durable medical equipment.

1 (21) (a) "Over-the-counter drug" means a drug that contains a label that identifies the product as a drug,
2 as required by 21 CFR 201.66.

3 (b) An over-the-counter drug label includes:

4 (i) a drug facts panel; or

5 (ii) a statement of the active ingredients with a list of those ingredients contained in the compound,
6 substance, or preparation.

7 (c) The term does not include grooming and hygiene products.

8 (22) "Person" means an individual, trust, estate, fiduciary, partnership, limited liability company, limited
9 liability partnership, corporation, or any other legal entity.

10 (23) (a) "Prepared food" means:

11 (i) food sold in a heated state or heated by the seller;

12 (ii) two or more food ingredients mixed or combined by the seller for sale as a single item; or

13 (iii) food sold with eating utensils provided by the seller, including plates, knives, forks, spoons, glasses,
14 cups, napkins, or straws. A plate does not include a container or packaging used to transport the food.

15 (b) The term does not include food that is only cut, repackaged, or pasteurized by the seller and eggs,
16 fish, meat, poultry, and foods containing these raw animal foods requiring cooking by the consumer, as
17 recommended by the United States food and drug administration in chapter 3, part 401.11, of its Food Code,
18 so as to prevent food-borne illnesses.

19 (24) "Prescription" means an order, formula, or recipe issued in any form of oral, written, electronic, or
20 other means of transmission by a licensed practitioner as authorized by the laws of Montana.

21 (25) "Prosthetic device" means a replacement, corrective, or supportive device, including repair and
22 replacement parts, worn on or in the body to:

23 (a) artificially replace a missing portion of the body;

24 (b) prevent or correct physical deformity or malfunction; or

25 (c) support a weak or deformed portion of the body.

26 (26) "Purchase price" applies to the measure subject to use tax and has the same meaning as sales
27 price.

28 (27) "Purchaser" means a person to whom a sale of personal property is made or to whom a service is
29 furnished.

30 (28) "Registration" or "seller's registration" means a seller's registration as described in [section 33].

(29) "Retail sale" means any sale, lease, or rental for any purpose other than for resale, sublease, or subrent.

(30) "Sale", "selling", or "buying" means the transfer of property for consideration.

(31) (a) "Sales price" applies to the measure subject to sales tax and means the total amount of consideration, including cash, credit, property, and services, for which personal property or services are sold, leased, or rented or valued in money, whether received in money or otherwise, without any deduction for the following, except for the items in subsections (31)(a)(iii) through (31)(a)(vi), if they separately stated on the invoice, billing, or similar document given to the purchaser:

(i) the seller's cost of the property sold;

(ii) the cost of materials used, labor or service costs, interest, losses, all costs of transportation to the seller, all taxes imposed on the seller, and any other expense of the seller;

(iii) charges by the seller for any services necessary to complete the sale, other than delivery and installation charges;

(iv) delivery charges;

(v) installation charges; or

(vi) the value of exempt personal property given to the purchaser when taxable and exempt personal property have been bundled together and sold by the seller as a single product or piece of merchandise.

(b) The term does not include:

(i) discounts, including cash, term, or coupons that are not reimbursed by a third party that are allowed by a seller and taken by a purchaser on a sale;

(ii) interest, financing charges, and carrying charges from credit extended on the sale of personal property or services if the amount is separately stated on the invoice, bill of sale, or similar document given to the purchaser;

(iii) any taxes legally imposed directly on the consumer that are separately stated on the invoice, bill of sale, or similar document given to the purchaser; and

(iv) trade-in value of tangible personal property when the trade-in and purchase occur in one transaction.

(32) "Sales tax" and "use tax" mean the applicable tax imposed by [section 2].

(33) "Seller" means a person that makes sales, leases, or rentals of personal property or services.

(34) "Service" means all activities engaged in for other persons for a fee, retainer, commission, or other monetary charge that involve predominantly the performance of a service as distinguished from selling property.

1 In determining what is a service, the intended use, principal objective, or ultimate objective of the contracting
2 parties is irrelevant.

3 (35) (a) "Soft drinks" means nonalcoholic beverages that contain natural or artificial sweeteners.

4 (b) The term does not include beverages that contain milk or milk products, soy, rice or similar milk
5 substitutes, or greater than 50% of vegetable or fruit juice by volume.

6 (36) "Tangible personal property" means personal property that can be seen, weighed, measured, felt,
7 or touched or that is in any other manner perceptible to the senses. Tangible personal property includes
8 electricity, water, gas, steam, and computer software.

9 (37) "Tobacco" means cigarettes, cigars, chewing or pipe tobacco, or any other item that contains
10 tobacco.

11 (38) "Use" or "using" includes use, consumption, or storage, other than storage for resale or for use
12 solely outside this state, in the ordinary course of business.

13
14 **NEW SECTION. Section 2. Imposition and rate of sales tax and use tax -- exceptions.** (1) A sales
15 tax of 4% is imposed on all sales of services and tangible personal property. The sales tax is imposed on the
16 purchaser, and except when the purchaser has a direct payment permit as provided in [section 8], the sales tax
17 must be collected by the seller and paid to the department by the seller. The seller holds all sales taxes collected
18 in trust for the state. The sales tax must be applied to the sales price.

19 (2) For the privilege of using property within this state, there is imposed on the person using property
20 a use tax equal to 4% of the value of the property that was:

21 (a) manufactured by the person using the property within this state;

22 (b) acquired outside this state as the result of a transaction that would have been subject to the sales
23 tax had it occurred within this state;

24 (c) acquired within the exterior boundaries of an Indian reservation within this state as a result of a
25 transaction that would have been subject to the sales tax had it occurred outside of the exterior boundaries of
26 an Indian reservation within this state; or

27 (d) acquired as the result of a transaction that was not initially subject to the sales tax imposed by
28 subsection (1) or the use tax imposed by subsection (2)(b) or (2)(c) but which transaction, because of the
29 purchaser's subsequent use of the property, is subject to the sales tax or use tax.

30 (3) (a) For the privilege of using services within this state, there is imposed on the person using services

1 a use tax equal to 4% of the value of the services at the time at which they were rendered.

2 (b) Services are taxable under this section if they were rendered as the result of a transaction that was
3 not initially subject to the sales tax or use tax but, because of the buyer's subsequent use of the services, are
4 subject to the sales tax or use tax.

5 (4) For purposes of this section, the value of property must be determined as of the time of acquisition,
6 introduction into this state, or conversion to use, whichever is latest.

7 (5) The sale of property exempt or nontaxable under [sections 1 through 53] is exempt from the tax
8 imposed in subsections (1) through (3).

9
10 **NEW SECTION. Section 3. Presumption of taxability -- value -- rounding rules.** (1) In order to
11 prevent evasion of the sales tax or use tax and to aid in its administration, it is presumed that:

12 (a) all sales by a person engaging in business are subject to the sales tax or use tax; and

13 (b) all property bought or sold by any person for delivery into this state is bought or sold for a taxable
14 use within this state.

15 (2) In determining the amount of use tax due on the use of property, it is presumed, in the absence of
16 a preponderance of the evidence of another value, that value means the total amount of property or the
17 reasonable value of other consideration paid for the use of the property, exclusive of any type of time-price
18 differential. However, in an exchange in which the amount of money paid does not represent the value of the
19 property purchased, the use tax must be imposed on the reasonable value of the property purchased.

20 (3) The department shall adopt rules providing for the payment of the sales tax or use tax that comply
21 with the rounding rules adopted by the agreement.

22
23 **NEW SECTION. Section 4. Credit -- out-of-state taxes.** If a sales tax, use tax, or similar tax has been
24 levied by another state or a political subdivision of another state on property that was bought outside this state
25 but that will be used or consumed within this state and the tax was paid by the current user, the amount of tax
26 paid may be credited against any use tax due this state on the same property. The credit may not exceed the
27 sales tax or use tax due this state.

28
29 **NEW SECTION. Section 5. Separate statement of sales tax -- no advertising to absorb or refund**
30 **sales tax.** (1) If a person collects a sales tax in excess of the sales tax imposed by [section 2], both the tax and

1 the excess tax must be remitted to the department.

2 (2) The sales tax must be stated separately for all sales, except for sales from coin-operated or
3 currency-operated machines.

4 (3) A person may not advertise, hold out, or state to the public or to any customer that the sales tax or
5 use tax imposed by [sections 1 through 53] will be absorbed or refunded.

6
7 **NEW SECTION. Section 6. Liability of user for payment of use tax.** (1) A person within this state
8 who uses property is liable to the state for payment of the use tax if the use tax is payable on the value of the
9 property but has not been paid.

10 (2) The liability imposed by this section is discharged if the purchaser has paid the use tax to the seller
11 for payment to the department.

12
13 **NEW SECTION. Section 7. Collection of sales tax and use tax -- listing of business locations and**
14 **agents -- severability.** (1) Except when the purchaser has a direct payment permit as provided in [section 8],
15 a person engaging in the business of selling property or services subject to taxation under [sections 1 through
16 53] shall collect the sales tax from the purchaser and pay the sales tax collected to the department.

17 (2) (a) A person that solicits or exploits the consumer market within this state by regularly and
18 systematically performing an activity within this state and whose sales are not subject to the sales tax shall
19 collect the use tax from the purchaser and pay the use tax collected to the department.

20 (b) "Activity", for the purposes of this section, includes but is not limited to engaging in any of the
21 following within this state:

22 (i) maintaining an office or other place of business that solicits orders through employees or
23 independent contractors;

24 (ii) canvassing;

25 (iii) demonstrating;

26 (iv) collecting money;

27 (v) warehousing or storing merchandise;

28 (vi) delivering or distributing products as a consequence of an advertising or other sales program
29 directed at potential customers;

30 (vii) to the extent permitted by federal law, soliciting orders for property by means of telecommunications

1 or a television shopping system or by providing telecommunications services that use toll or toll-free numbers
2 and that are intended to be broadcast by cable television or other means to consumers within this state;

3 (viii) soliciting orders, pursuant to a contract with a broadcaster or publisher located within this state, for
4 property by means of advertising disseminated primarily to consumers located within this state and only
5 secondarily to bordering jurisdictions;

6 (ix) soliciting orders for property by mail through the distribution of catalogs, periodicals, advertising
7 flyers, or other advertising;

8 (x) soliciting orders, pursuant to a contract with a cable television operator located within this state, for
9 tangible personal property by means of advertising transmitted or distributed over a cable television system
10 within this state; or

11 (xi) participating in an act that benefits from banking, financing, debt collection, telecommunications, or
12 marketing activities occurring within this state or that benefits from the location within this state of authorized
13 installation, servicing, or repair facilities.

14 (3) Multistate registration pursuant to the agreement may not be used as a factor to determine whether
15 the person is conducting an activity within the state subjecting the person to the sales tax or use tax.

16 (4) A person engaging in business within this state shall, before making any sales, register as a seller,
17 as provided in [section 33], and at the time of making a sale, whether within or outside of the state, collect the
18 sales tax imposed by [section 2] from the purchaser and give to the purchaser a receipt, in the manner and form
19 prescribed by rule, for the sales tax paid.

20 (5) The department may authorize the collection of the sales tax imposed by [section 2] by any retailer
21 who does not maintain a place of business within this state but who, to the satisfaction of the department, is in
22 compliance with the law or who has registered under the centralized registration system established under the
23 agreement, as provided in [section 33]. When authorized, the person shall collect the use tax upon all property
24 that, to the person's knowledge, is for use within this state and subject to taxation under [sections 1 through 53].

25 (6) All sales tax and use tax required to be collected and all sales tax and use tax collected by any
26 person under [sections 1 through 53] constitute a debt owed to this state by the person required to collect the
27 sales tax or use tax.

28 (7) A person selling property to residents of this state, when the property is delivered to a location within
29 this state, shall, upon request by the department, provide a list of all sales to the department. The list must
30 include the name and address of each purchaser and the amount of each sale. The department may pay to any

1 person furnishing a list of sales or purchasers the reasonable costs of reproducing the list.

2 (8) A person engaging in business within this state shall provide to the department:

3 (a) the names and addresses of all of the person's agents operating within this state; and

4 (b) the location of each of the person's distribution houses or offices, sales houses or offices, and other
5 places of business within this state.

6 (9) If any application of this section is held invalid, the application to other situations or persons is not
7 affected.

8
9 **NEW SECTION. Section 8. Direct payment of sales tax -- direct payment permits.** (1) The
10 department may issue direct payment permits to any person liable for the payment of more than \$500 a year
11 in sales taxes. A person shall apply to the department, on forms approved by the department. By applying for
12 a direct payment permit, the applicant acknowledges that the applicant assumes all obligations to pay any sales
13 tax due under [sections 1 through 53] made by the applicant as a direct payment permitholder. A direct payment
14 permit may be revoked by the department at any time upon 90 days' written notice to the permittee. Any
15 permittee may be audited by the department.

16 (2) A direct payment permitholder shall pay any sales tax authorized under [sections 1 through 53]
17 directly to the department. The permittee must receive an exemption certificate, as provided in [section 9], using
18 the direct payment permit as a basis for the exemption.

19
20 **NEW SECTION. Section 9. Exemption certificate -- form -- rules.** (1) The department shall provide
21 for a uniform exemption certificate. An electronic or digitally usable version of an exemption certificate may also
22 be provided. A purchaser shall provide the exemption certificate number when purchasing goods for resale or
23 for other nontaxable transactions.

24 (2) At a minimum, the exemption certificate must provide:

25 (a) a unique identification number;

26 (b) the nature of the exemption, such as:

27 (i) the purchase of types of property and services for resale;

28 (ii) the purchase of types of property and services for manufacturing;

29 (iii) that the purchaser is authorized to make direct payments; or

30 (iv) that the purchaser is an entity exempt from payment of sales tax;

1 (c) the name and address of the purchaser; and

2 (d) if it is a paper certificate, a signature line for the purchaser.

3 (3) The department shall adopt rules to provide procedures for application for an exemption certificate
4 prior to [the applicability date of this section]. The rules adopted by the department must ensure that each person
5 eligible for an exemption certificate within this state prior to [the applicability date of this section] that has applied
6 in a timely fashion is issued an exemption certificate prior to [the applicability date of this section].

7
8 **NEW SECTION. Section 10. Exemption certificate -- requirements.** (1) A purchaser or lessee shall
9 provide an exemption certificate number to the seller or lessor at the time that a nontaxable transaction occurs.

10 (2) A purchaser presenting an exemption certificate number shall provide information on the
11 purchaser's identity and the nature of the purchaser's exemption as prescribed by the department.

12 (3) If the seller or lessor accepts an exemption certificate at the time of the sale or lease and obtains
13 proper information on the identity of the purchaser and the nature of the purchaser's exemption, then the
14 purchaser is liable for payment of any tax due on sales or leases in which the purchaser incorrectly claimed an
15 exemption. If the incorrect claim was made with the intent to evade the payment of the sales tax, the purchaser
16 is subject to the penalty provided in [section 36].

17
18 **NEW SECTION. Section 11. Exempt services.** (1) The following services enumerated in the North
19 American Industry Classification System Manual (NAICS), 1997, as prepared by the United States office of
20 management and budget, office of the president, are exempt from taxation:

21 (a) health services (NAICS sector 62);

22 (b) educational services (NAICS sector 61), except all other schools and instruction (NAICS industry
23 61169);

24 (c) agriculture, forestry, and fishing and hunting services (sector 11), except fishing, hunting, and
25 trapping (NAICS subsector 114);

26 (d) radio and television broadcasting (NAICS group 5131);

27 (e) transportation (NAICS sector 48), except:

28 (i) nonscheduled air transportation (NAICS group 4812);

29 (ii) truck transportation (NAICS subsector 484);

30 (iii) transit and ground transportation (NAICS subsection 485), other than urban transit systems (NAICS

industry 48511) and school and employee bus transportation (NAICS group 4854);

(iv) pipeline transportation (NAICS subsector 486);

(v) scenic and sightseeing transportation (NAICS subsector (487);

(f) farm product warehousing and storage (NAICS industry 49313); and

(g) security brokerage (NAICS industry 52312).

(2) The following are also specifically exempt from the provisions of [sections 1 through 53]:

(a) services rendered by an employee for the employee's employer;

(b) commissions earned or service fees paid by an insurance company to an agent or representative for the sale of a policy;

(c) services provided by any corporation to another corporation that is centrally assessed and that has identical ownership and services provided by any corporation to a wholly owned subsidiary that is centrally assessed;

(d) retail telecommunications services subject to the retail telecommunications excise tax under Title 15, chapter 53; and

(e) gambling that is regulated under Title 23, chapter 5.

NEW SECTION. Section 12. Exemption -- government agencies -- utility services -- exception.

(1) Except as provided in subsection (2), all sales by, sales to, or uses by the United States, this state, an agency or instrumentality of the United States or of this state, a political subdivision of this state, an Indian tribe, or a foreign government are exempt from the sales tax and use tax.

(2) The sale of natural gas, water, electricity, telecommunications services, refuse collection, or other utility services, whether or not provided by a government agency, is not subject to the sales tax and use tax.

NEW SECTION. Section 13. Exemption -- food products. (1) Except as provided in subsection (2), the sale or use of food and food ingredients is exempt from the sales tax and use tax.

(2) The sale of prepared food and food sold through vending machines is taxable, but prepared food offered or delivered as part of a residential living arrangement and consumed by an individual that is party to the arrangement or by patients of a health care facility is exempt from the sales tax and use tax.

NEW SECTION. Section 14. Exemption -- medicine, drugs, and certain devices. The following are

1 exempt from the sales tax and use tax:

2 (1) prescription drugs, over-the-counter drugs, durable medical equipment, and mobility-enhancing
3 equipment; and

4 (2) insulin, oxygen, and therapeutic and prosthetic devices.
5

6 **NEW SECTION. Section 15. Exemption -- motor fuel.** (1) The sale and use of gasoline, ethanol
7 blended for fuel, and special fuel, including natural gas or propane, upon which tax has been paid or will be paid
8 under Title 15, chapter 70, are exempt from the sales tax and use tax.

9 (2) The sale and use of special fuel that is exempt from taxation under Title 15, chapter 70, part 3, are
10 exempt from the sales tax and use tax.
11

12 **NEW SECTION. Section 16. Exemption -- insurance premiums.** The premiums of an insurance
13 company, a health service corporation, a health maintenance organization, or a fraternal benefit society or of
14 a producer of the company, corporation, organization, or society are exempt from the sales tax.
15

16 **NEW SECTION. Section 17. Exemption -- dividends and interest.** The following are exempt from
17 the sales tax:

18 (1) interest on money loaned or deposited;

19 (2) dividends or interest from stocks, bonds, or securities;

20 (3) proceeds from the sale of stocks, bonds, or securities; and

21 (4) commissions or fees derived from the business of buying, selling, or promoting any stock, bond, or
22 security.
23

24 **NEW SECTION. Section 18. Exemption -- thrift stores -- estate sales.** (1) The sale of previously
25 owned clothing, appliances, and furniture by a nonprofit organization that is exempt from taxation under section
26 26 U.S.C. 501(c)(3) is exempt from the sales tax and use tax.

27 (2) The sale of property that was owned by a deceased person by the estate, personal representative,
28 spouse, or children of the deceased is exempt from the sales and use tax.
29

30 **NEW SECTION. Section 19. Exemption -- isolated or occasional sale or lease of property.** The

1 isolated or occasional sale or lease of property by a person that is not regularly engaged in or that does not claim
2 to be engaged in the business of selling or leasing the same or a similar property is exempt from the sales tax
3 and use tax. Occasional sales include sales that are occasional but not continuous and that are made for the
4 purpose of fundraising by nonprofit organizations, including but not limited to youth clubs, service clubs, and
5 fraternal organizations.

6
7 **NEW SECTION. Section 20. Exemption -- personal effects.** The use by an individual of personal
8 or household effects brought into the state for the establishment by the individual of an initial residence within
9 this state and the use of property brought into the state by a nonresident for the nonresident's own nonbusiness
10 use while temporarily within this state are exempt from the use tax.

11
12 **NEW SECTION. Section 21. Exemption -- feed -- fertilizers.** The sale or use of the following when
13 used in the course of an agricultural business is exempt from the sales tax and use tax:

- 14 (1) feed for livestock;
15 (2) semen, ova, and embryos used in animal husbandry;
16 (3) seeds, roots, and bulbs;
17 (4) soil conditioners and fertilizers;
18 (5) insecticides, insects used to control weeds or the population of other insects, fungicides, weedicides,
19 and herbicides; and
20 (6) water for commercial irrigation.

21
22 **NEW SECTION. Section 22. Exemption -- agricultural products -- livestock feeding.** (1) (a) The
23 sale of livestock, live poultry, unprocessed agricultural products, hides, or pelts by a grower, producer, trapper,
24 or nonprofit marketing association is exempt from the sales tax.

25 (b) A person engaged in the business of buying and selling wool or mohair or of buying and selling
26 livestock on the person's own account and without the services of a broker, auctioneer, or other agent is
27 considered a producer for the purposes of subsection (1)(a).

28 (2) Sales from feeding, pasturing, penning, or handling or training livestock prior to sale are exempt from
29 the sales tax.

NEW SECTION. Section 23. Exemption -- minerals -- exceptions. (1) The sale or lease of interests

in minerals, as defined in 15-38-103, is exempt from the sales tax and use tax.

(2) Except as provided in subsections (5) and (6), the sale or use of a mineral, as defined in 15-38-103, is exempt from the sales tax and use tax.

(3) Minerals used by the producer of the minerals for purposes of exploring for, producing, or transporting minerals are exempt from the sales tax and use tax, except that the exemption does not include refined petroleum products.

(4) The sale or use of platinum and palladium, whenever refined and preserved in coins, ingots, bars, or other similar forms, is exempt from the sales tax and use tax.

(5) Minerals used as or integrated into jewelry, art, or sculpture or used as a decorative embellishment or adornment, either in their own right, in combination with other property, or after being refined, reduced, polished, cut, faceted, or otherwise processed, are not included in the exemption provided in this section.

(6) Minerals that are used for producing energy or that are used for conversion into energy are subject to the sales tax or use tax unless the energy is produced or converted for resale as a form of energy.

NEW SECTION. Section 24. Exemption -- certain chemicals, reagents, and substances. (1) The

sale or use by any person of any chemical, reagent, or other substance that is normally used or consumed in the processing of ores or petroleum, in a mill, smelter, refinery, or reduction facility, or in acidizing oil wells is exempt from the sales tax and use tax.

(2) The sale or use of explosives, blasting material, or dynamite is not exempt from the sales tax and use tax.

NEW SECTION. Section 25. Nontaxability -- sale for resale. The sale of property for resale is

nontaxable if:

(1) the sale is made to a purchaser with an exemption certificate; and

(2) the purchaser resells the property either by itself or in combination with other property or services in the ordinary course of business and the property will ultimately be subject to the sales tax.

NEW SECTION. Section 26. Nontaxability -- sale to miner or manufacturer. (1) The sale of property

to a purchaser engaged in the business of mining or manufacturing is nontaxable if:

1 (a) the purchaser has an exemption certificate; and

2 (b) (i) the purchaser incorporates the property as an ingredient or component part of the product in the
3 business of mining or manufacturing; or

4 (ii) the purchaser uses the property to extract a mineral and the property is required to be abandoned
5 in place, in accordance with state regulations, when production of the mineral from a mine or wellhead
6 permanently ceases.

7 (2) For the purposes of this section, electrical energy or electricity used or consumed by electrolytic
8 reduction used in the reduction or refinement of ores is considered a component part of the product.

9
10 **NEW SECTION. Section 27. Nontaxability -- sale or lease of real property or improvements and**
11 **lease of mobile homes.** (1) (a) The sale or lease of real property or improvements is nontaxable.

12 (b) The lease or rental of a mobile home for a period of 1 month or more is nontaxable.

13 (2) The inclusion of furniture or appliances furnished by the landlord or lessor as part of a leased or
14 rented dwelling, house, mobile home, cabin, condominium, or apartment is nontaxable.

15
16 **NEW SECTION. Section 28. Nontaxability -- sale of certain services to out-of-state purchaser.**

17 (1) Except as provided in subsection (3), sales of a service are not taxable if the sale is made to a purchaser
18 that delivers to the seller either an exemption certificate or other evidence acceptable to the department that the
19 transaction and the person that delivers the exemption certificate or other evidence acceptable to the department
20 meet the conditions set out in subsection (2).

21 (2) Sales of a service are not taxable if the purchaser of the service, any of the purchaser's employees,
22 or any person in privity with the purchaser:

23 (a) does not make initial use of the product or the service within this state;

24 (b) does not take delivery of the product or the service within this state; or

25 (c) concurrent with the performance of the service, does not have a regular place of work within this
26 state or spend more than brief and occasional periods of time within this state and:

27 (i) does not have any communication within this state related in any way to the subject matter,
28 performance, or administration of the service with the person performing the service; or

29 (ii) does not personally perform work within this state related to the subject matter of the service.

30 (3) Architectural, engineering, surveying, or graphic design services are nontaxable if the product

1 resulting from the service or the service is used or applied exclusively outside of Montana. For the purposes of
2 this subsection, the provisions of subsection (2) do not apply.

3 (4) Services that initially were nontaxable under this section but that no longer meet the criteria in
4 subsection (2) are nontaxable only for the period prior to the disqualification and are, after disqualification,
5 taxable.

6
7 **NEW SECTION. Section 29. Nontaxability -- transactions in interstate commerce -- certain**
8 **property used in interstate commerce.** The following are nontaxable:

9 (1) A transaction in interstate commerce is nontaxable to the extent that the imposition of the sales tax
10 or use tax would be unlawful under the United States constitution.

11 (2) Transmitting messages or conversations by radio is nontaxable when the transmissions originate
12 from a point outside this state and are received at a point within this state.

13 (3) The sale of radio or television broadcast time is nontaxable if the advertising message is supplied
14 by or on behalf of a national or regional seller or an advertiser that does not have its principal place of business
15 within this state or that is not incorporated under the laws of this state.

16
17 **NEW SECTION. Section 30. Nontaxability -- sale of tangible personal property for leasing.** The
18 sale of property, other than furniture or appliances, is nontaxable if:

19 (1) the sale is made to a purchaser that has an exemption certificate;

20 (2) the purchaser is engaged in a business deriving more than 50% of its receipts from selling or leasing
21 property of the type leased; and

22 (3) the purchaser does not use the property in any manner, other than holding it for sale or lease or
23 selling or leasing it, either by itself or in combination with other property, in the ordinary course of business.

24
25 **NEW SECTION. Section 31. Nontaxability -- lease for subsequent lease.** The lease of property,
26 other than furniture or appliances, is nontaxable if:

27 (1) the lease is made to a lessee who has an exemption certificate; and

28 (2) the lessee does not use the property in any manner, other than for subsequent lease in the ordinary
29 course of business.

1 **NEW SECTION. Section 32. Nontaxability -- use tax -- use of property for leasing.** The value of

2 leased property is not considered in computing the use tax due if the person holding the property for lease:

3 (1) is engaged in a business that derives a substantial portion of its receipts from selling or leasing
4 property of the type leased;

5 (2) does not use the property in any manner, other than holding it for sale or lease or selling or leasing
6 it, either by itself or in combination with other tangible personal property, in the ordinary course of business; and

7 (3) does not use the property in a manner incidental to the performance of a service.
8

9 **NEW SECTION. Section 33. Seller's registration -- rules.** (1) A person that wishes to engage in

10 business within this state shall register as a seller before engaging in business within this state.

11 (2) Registration may be directly with the department or through the multistate central registration system
12 as provided in the agreement. Sellers registered through the multistate central registration system agree to
13 collect and remit sales taxes and use taxes for taxable Montana sales and comply with audit and compliance
14 provisions established through the agreement.

15 (3) The department shall register each applicant eligible to engage in business within this state and
16 provide a separate, numbered seller's registration for each location in which the applicant is maintaining an office
17 or other place of business. A registration is valid until revoked or suspended but is not assignable. A registration
18 is valid only for the person in whose name it is issued and for the transaction of business at the place
19 designated. The registration must be conspicuously displayed at all times at the place for which it is issued.

20 (4) The department shall adopt rules to provide procedures for application for and provision for
21 registering sellers engaging in business within this state prior to [the applicability date of this section]. The rules
22 adopted by the department must ensure that each person engaging in business within this state prior to [the
23 applicability date of this section] has the opportunity to be registered prior to [the applicability date of this section].
24

25 **NEW SECTION. Section 34. Seller's registration application -- requirements -- place of business**

26 **-- form.** (1) (a) A person that wishes to engage in business within this state shall file with the department an
27 application for a seller's registration. If the person has more than one location in which the person is maintaining
28 an office or other place of business, an application may include multiple locations.

29 (b) A vending machine operator who has more than one vending machine location is considered to have
30 only one place of business for purposes of this section.

(c) An applicant who does not maintain an office or other place of business and who moves from place to place is considered to have only one place of business and shall attach proof of registration to the applicant's cart, stand, truck, or other merchandising device.

(2) Each person or class of persons obligated to file a return under [sections 1 through 53], other than persons with direct payment permits and certified service providers, is required to file an application for a seller's registration.

(3) Each application for registration may be either an electronic or a paper form and must be prescribed by the department. The application must meet the requirements of the multistate central registration system under the agreement even if the applicant intends to make local retail sales only in Montana. The form must set forth the name under which the applicant intends to transact business, the location of the applicant's place or places of business, and other information that the department may require. The application must be made by the owner if the owner is a natural person, by a member or partner if the owner is an association or partnership, or by an authorized person if the owner is a corporation.

NEW SECTION. Section 35. Revocation or suspension of seller's registration -- appeal. (1)

Subject to the provisions of subsection (2), the department may, for reasonable cause, revoke or suspend any seller's registration held by a person that fails to comply with the provisions of [sections 1 through 53].

(2) A proposed revocation or suspension is subject to the uniform dispute review procedure established in 15-1-211.

(3) If a registration is revoked, the department may not allow a new registration except upon application accompanied by reasonable evidence of the intention of the applicant to comply with the provisions of [sections 1 through 53]. The department may require security in addition to that authorized by [section 43] in an amount reasonably necessary to ensure compliance with [sections 1 through 53] as a condition for registration of the applicant.

(4) A person aggrieved by the department's final decision to revoke a seller's registration, as provided in subsection (1), may appeal the decision to the state tax appeal board within 30 days after the date on which the department issued its final decision.

(5) A decision of the state tax appeal board may be appealed to the district court.

NEW SECTION. Section 36. Improper use of subject of purchase obtained with exemption

certificate -- penalty. (1) If a purchaser that uses an exemption certificate uses the subject of the purchase for a purpose other than one allowed as nontaxable under [sections 1 through 53], the use is considered a taxable sale as of the time of first use by the purchaser and the sales price is the price that the purchaser paid. If the sole nonexempt use is rental while holding for sale, the purchaser shall include in the sales price the amount of the rental charged. Upon subsequent sale of the property, the seller shall include the entire amount of the sales price, without deduction of amounts previously received as rentals.

(2) A person that uses an exemption certificate for purchase of property or services that will be used for other than the claimed exempt use is subject to a penalty, payable to the department. The penalty for each transaction in which an improper use of an exemption certificate has occurred is the greater of:

(a) \$100; or

(b) 20% of the sales price of the property or service.

(3) Upon a showing of good cause, the department may abate or waive the penalty or a portion of the penalty.

NEW SECTION. Section 37. Commingling goods -- exemption certificate. If a purchaser uses an exemption certificate with respect to the purchase of fungible goods and commingles these goods with fungible goods that were not purchased with an exemption certificate but that are of such similarity that the identity of the goods in the commingled mass cannot be determined, sales from the mass of commingled goods are considered to be sales of the goods purchased with the exemption certificate until the quantity of commingled goods sold equals the quantity of goods originally purchased under the exemption certificate.

NEW SECTION. Section 38. Liability for payment of tax -- security for retailer without place of business -- penalty. (1) Liability for the payment of the sales tax and use tax is not extinguished until the taxes have been paid to the department.

(2) A seller that does not maintain an office or other place of business within this state is liable for the sales tax or use tax in accordance with [sections 1 through 53] and may be required to furnish adequate security, as provided in [section 43], to ensure collection and payment of the taxes. The seller's registration provided for in [section 33] may be canceled at any time if the department considers the security inadequate or believes that the taxes can be collected more effectively in another manner.

(3) An agent, canvasser, or employee of a retailer doing business within this state who is not registered

1 as a seller may not sell, solicit orders for, or deliver any property or service within Montana. If an agent,
2 canvasser, or employee violates the provisions of [sections 1 through 53], the individual is subject to a \$250 fine
3 for each separate transaction or event.

4
5 **NEW SECTION. Section 39. Application for permission to report on accrual basis.** (1) A person
6 that is a registered seller may apply to the department for permission to report and pay the sales tax or use tax
7 on an accrual basis.

8 (2) The application must be made on a form, prescribed by the department, that contains information
9 that the department may require.

10 (3) A person may not report or pay the sales tax or use tax on an accrual basis unless the person has
11 received written permission from the department.

12
13 **NEW SECTION. Section 40. Returns -- payment -- authority of department.** (1) Each person
14 engaged in business within this state or using property within this state that is subject to tax under [sections 1
15 through 53] shall file a return. Sellers that are registered under the agreement and that use either a certified
16 automated system or a certified service provider, as defined in the agreement in [section 55], are subject to the
17 reporting and payment provisions of subsection (2) of this section. All other sellers are subject to the reporting
18 and payment provisions of subsection (3).

19 (2) (a) On or before the 20th day of each month, a return, in a form adopted by the department in
20 conformance with the agreement, with a remittance of the tax owed for the preceding month, must be filed with
21 the department. The filing and the remittance may be done electronically.

22 (b) The seller and any agent of the seller, for the purposes of reporting or paying the sales tax or use
23 tax, are subject to the audit and accountability provisions of the agreement.

24 (3) (a) For the purposes of the sales tax or use tax, a return must be filed by:

25 (i) a seller required to collect the tax;

26 (ii) a purchaser with a direct payment permit; and

27 (iii) a person that:

28 (A) purchases any items the storage, use, or other consumption of which is subject to the sales tax or
29 use tax; and

30 (B) has not paid the tax to a retailer required to pay the tax.

(b) A return must be filed with and payment must be received by the department on or before the 20th day of each month for taxes owed for sales occurring during the preceding month. A seller that has a tax liability that averages less than \$100 a month may report and pay the tax on a quarterly basis and shall file the return with payment received by the department before the 20th day of the month after the end of the quarter.

(c) Each return must be authenticated by the person filing the return or by the person's agent authorized in writing to file the return.

(d) Pursuant to rules established by the department, returns may be computer-generated and electronically filed.

(4) (a) A person required to report and pay to the department a tax under [sections 1 through 53] shall keep records, render statements, make returns, and comply with the provisions of [sections 1 through 53] and the rules prescribed by the department. Each return or statement must include the information required by the rules of the department. The department shall comply with the provisions of the agreement in determining reports and records management requirements in reference to sellers that are registered under the agreement.

(b) For the purpose of determining compliance with the provisions of [sections 1 through 53], the department is authorized to examine or cause to be examined any books, papers, records, or memoranda relevant to making a determination of the amount of tax due, whether the books, papers, records, or memoranda are the property of or in the possession of the person filing the return or another person. In determining compliance, the department may use statistical sampling and other sampling techniques consistent with generally accepted auditing standards. The department may also:

(i) require the attendance of a person having knowledge or information relevant to a return;

(ii) compel the production of books, papers, records, or memoranda by the person required to attend;

(iii) implement the provisions of 15-1-703 if the department determines that the collection of the tax is or may be jeopardized because of delay;

(iv) take testimony on matters material to the determination; and

(v) administer oaths or affirmations.

NEW SECTION. Section 41. Credit for bad debts -- taxes paid if account collected. (1) (a) Sales taxes paid by a person filing a return under [section 40] on sales found to be worthless and actually deducted by the person as a bad debt for federal income tax purposes may be credited on a subsequent payment of the tax. A bad debt must be deducted on the return of the period during which the bad debt is written off as

1 uncollectible in the seller's books and records and must be eligible to be deducted for federal income tax
2 purposes, whether or not the seller is actually required to file federal income tax returns.

3 (b) A bad debt deduction may not include:

4 (i) finance charges or interest, either on the sale itself or that is attributed to the late payment of the
5 purchase price;

6 (ii) sales taxes or use taxes charged on the sales price;

7 (iii) uncollectible amounts on property that remain in the possession of the seller until the full purchase
8 price is paid;

9 (iv) expenses incurred in attempting to collect any debt; and

10 (v) repossessed property.

11 (2) If the accounts are subsequently collected, the sales tax must be paid and reported on the return
12 filed for the period in which the collection is made. If the amount of bad debt exceeds the amount of taxable
13 sales for the period during which the bad debt is written off, a refund claim may be filed within 5 years of the date
14 of the return on which the bad debt could first be collected.

15 (3) For the purposes of reporting a payment received on a previously claimed bad debt, any payments
16 made on a debt or account are applied first proportionally to the taxable price of the property and the tax on the
17 property and second to interest, service charges, and any other charges.

18 (4) If filing responsibilities have been assumed by a certified service provider, the certified service
19 provider may claim, on behalf of the seller, any bad debt allowance.

20 (5) If the books and records of the seller claiming the bad debt allowance support an allocation of the
21 bad debts among several states, the bad debts may be allocated among those states.

22
23 **NEW SECTION. Section 42. Vendor allowance.** (1) In lieu of the vendor allowance provided in
24 subsection (3), certified service providers must receive a monetary allowance determined as provided in the
25 agreement, and the sellers using the certified service providers may not receive a vendor allowance. The vendor
26 allowance must be funded entirely from sales tax proceeds collected by the sellers using the certified service
27 providers.

28 (2) In addition to the vendor allowance provided in subsection (3), a registered seller using a certified
29 automated system must receive a percentage of the tax determined to be payable to the state. The percentage
30 must be determined as provided in the agreement.

(3) (a) A person filing a return under [section 40] may claim a monthly vendor allowance for each permitted location in the amount of 1.5% of the tax determined to be payable to the state or \$250 a month, whichever is less.

(b) A person filing a quarterly return may claim 5% of the tax determined to be payable to the state or \$150 a quarter, whichever is less.

(c) The allowance may be deducted on the return.

NEW SECTION. Section 43. Security -- limitations -- bond. (1) The department may require a retailer to deposit, with the department, security in a form and amount that the department determines is appropriate. The security deposit may not be more than twice the estimated average liability for the period for which a return is required to be filed or \$10,000, whichever is less.

(2) In lieu of security, the department may require a retailer to file a bond, issued by a surety company authorized to transact business within this state, to guarantee solvency and responsibility.

(3) In addition to the other requirements of this section, the department may require the corporate officers, directors, or shareholders of a corporation to provide a personal guaranty and assumption of liability for the payment of the tax due under [sections 1 through 53].

NEW SECTION. Section 44. Examination of return -- adjustments -- delivery of notices and demands. (1) If the department determines that the amount of tax due is different from the amount reported, the amount of tax computed on the basis of the examination conducted pursuant to [section 40] constitutes the tax to be paid.

(2) If the tax due exceeds the amount of tax reported as due on the taxpayer's return, the excess must be paid to the department within 30 days after notice of the amount and demand for payment are mailed or delivered to the person making the return unless the taxpayer files a timely objection as provided in 15-1-211. If the amount of the tax found due by the department is less than that reported as due on the return and has been paid, the excess must be credited or, if no tax liability exists or is likely to exist, refunded to the person making the return.

(3) The notice and demand provided for in this section must contain a statement of the computation of the tax and interest and must be:

(a) sent by mail to the taxpayer at the address given in the taxpayer's return, if any, or to the taxpayer's

1 last-known address; or

2 (b) served personally upon the taxpayer.

3 (4) A taxpayer filing an objection to the demand for payment is subject to and governed by the uniform
4 dispute review procedure provided in 15-1-211.

5
6 **NEW SECTION. Section 45. Penalties and interest for violation.** The provisions of 15-1-216 apply
7 to returns, reports, and failure to pay the tax required under [sections 1 through 53].

8
9 **NEW SECTION. Section 46. Authority to collect delinquent taxes.** (1) (a) The department shall
10 collect taxes that are delinquent as determined under [sections 1 through 53].

11 (b) If a tax imposed by [sections 1 through 53] or any portion of the tax is not paid when due, the
12 department may issue a warrant for distraint as provided in Title 15, chapter 1, part 7.

13 (2) In addition to any other remedy, in order to collect delinquent taxes after the time for appeal has
14 expired, the department may direct the offset of tax refunds or other funds due the taxpayer from the state,
15 except wages subject to the provisions of 25-13-614 and retirement benefits.

16 (3) As provided in 15-1-705, the taxpayer has the right to a review of the tax liability prior to any offset
17 by the department.

18 (4) The department may file a claim for state funds on behalf of the taxpayer if a claim is required before
19 funds are available for offset.

20
21 **NEW SECTION. Section 47. Limitations.** (1) Except in the case of a person that purposely or
22 knowingly, as those terms are defined in 45-2-101, files a false or fraudulent return violating the provisions of
23 [sections 1 through 53], a deficiency may not be assessed or collected with respect to a month or quarter for
24 which a return is filed unless the notice of additional tax proposed to be assessed is mailed to or personally
25 served upon the taxpayer within 5 years from the date that the return was filed. For purposes of this section, a
26 return filed before the last day prescribed for filing is considered to be filed on the last day.

27 (2) If, before the expiration of the 5-year period prescribed in subsection (1) for assessment of the tax,
28 the taxpayer consents in writing to an assessment after expiration of the 5-year period, a deficiency may be
29 assessed at any time prior to the expiration of the period to which consent was given.

30 (3) The limitations prescribed for giving notice of a proposed assessment of additional tax under

subsection (1) do not apply if:

(a) the taxpayer has by written agreement suspended the federal statute of limitations for collection of federal tax if the suspension of the limitation set forth in this section lasts:

(i) only as long as the suspension of the federal statute of limitations; or

(ii) until 1 year after any changes in the person's federal tax have become final or any amended federal return is filed as a result of a suspension of the federal statute, whichever occurs later; or

(b) a taxpayer has failed to file a report of changes in federal taxable income or an amended return, as required by 15-30-146 or 15-31-506, until 5 years after the federal changes become final or the amended federal return was filed, whichever the case may be.

NEW SECTION. Section 48. Refunds -- interest -- limitations. (1) A claim for a refund or credit as a result of overpayment of taxes collected under [sections 1 through 53] must be filed within 5 years of the date that the return was due, without regard to any extension of time for filing.

(2) (a) Interest on an overpayment must be paid or credited at the same rate as the rate charged on delinquent taxes in [section 45].

(b) Except as provided in subsection (2)(c), interest must be paid from the date that the return was due or the date of overpayment, whichever is later. Interest does not accrue during any period in which the processing of a claim is delayed more than 30 days because the taxpayer has not furnished necessary information.

(c) The department is not required to pay interest if:

(i) the overpayment is refunded or credited within 6 months of the date that a claim was filed; or

(ii) the amount of overpayment and interest does not exceed \$1.

NEW SECTION. Section 49. Administration -- rules. (1) The department shall:

(a) administer and enforce the provisions of [sections 1 through 53];

(b) cause to be prepared and distributed forms and information that may be necessary to administer the provisions of [sections 1 through 53]; and

(c) adopt rules that may be necessary or appropriate to administer and enforce the provisions of [sections 1 through 53].

(2) In administering the provisions of [sections 1 through 53], the department shall, when applicable and

not in conflict with Montana law, follow the provisions of the Streamlined Sales and Use Tax Agreement adopted pursuant to [sections 54 through 61]. The department shall report to the revenue and transportation interim committee, as provided in 5-5-227, on:

(a) the operation of the Streamlined Sales and Use Tax Agreement and the benefits and costs to the state of its participation; and

(b) changes to the Streamlined Sales and Use Tax Agreement that require changes in Montana law for compliance with the agreement.

NEW SECTION. Section 50. Revocation of corporate license -- hearing authorized -- appeal. (1)

If a corporation authorized to do business within this state and required to pay the taxes imposed under [sections 1 through 53] fails to comply with any of the provisions of [sections 1 through 53] or any rule of the department, the department may, for reasonable cause, certify to the secretary of state a copy of an order finding that the corporation has failed to comply with specific statutory provisions or rules.

(2) The secretary of state shall, upon receipt of the certification, revoke the certificate authorizing the corporation to do business within this state and may issue a new certificate only when the corporation has obtained from the department an order finding that the corporation has complied with its obligations under [sections 1 through 53].

(3) An order authorized in this section may not be made until the corporation is given an opportunity to be heard before the department as provided in Title 2, chapter 4.

(4) A final decision of the department may be appealed to the state tax appeal board.

NEW SECTION. Section 51. Taxpayer quitting business -- liability of successor. (1) (a) All taxes

payable under [sections 1 through 53] are due and payable immediately whenever a taxpayer quits business, sells, exchanges, or otherwise disposes of the business or disposes of the stock of goods.

(b) The taxpayer shall make a return and pay the taxes due within 10 days after the taxpayer quits business, sells, exchanges, or otherwise disposes of the business or disposes of the stock of goods.

(2) Except as provided in subsection (4), a person that becomes a successor is liable for the full amount of the tax and shall withhold from the sales price payable to the taxpayer a sum sufficient to pay any tax due until the taxpayer produces either a receipt from the department showing payment in full of any tax due or a statement from the department that tax is not due.

(3) If a tax is due but has not been paid as provided in subsection (1)(b), the successor is liable for the payment of the full amount of tax. The payment of the tax by the successor is considered to be a payment upon the sales price, and if the payment is greater in amount than the sales price, the amount of the difference becomes a debt due to the successor from the taxpayer owing the tax under subsection (1).

(4) (a) A successor is not liable for any tax due from the person that the successor acquired a business or stock of goods from if:

(i) the successor gives written notice to the department of the acquisition; and

(ii) an assessment is not issued by the department against the former operator of the business within 6 months of receipt of the notice from the successor.

(b) If an assessment is issued by the department, a copy of the assessment must also be mailed to the successor, or if an assessment is not mailed to the successor, the successor is not liable for the tax due.

NEW SECTION. Section 52. Tax as debt. (1) The tax imposed by [sections 1 through 53] and related interest and penalties become a personal debt of the person required to file a return from the time that the liability arises, regardless of when the time for payment of the liability occurs.

(2) The debt of the personal representative of the estate of a decedent or a fiduciary is limited to the person's official or fiduciary capacity. However, if the person has voluntarily distributed the assets held in that capacity without reserving sufficient assets to pay the taxes, interest, and penalties, the person is personally liable for any deficiency.

(3) (a) This section applies to those corporate officers, directors, or shareholders required by the department to personally guarantee the payment of the taxes for their corporations.

(b) In addition to the liability imposed by subsection (3)(a), the officer or employee of a corporation whose duty it is to collect, truthfully account for, and pay to the state the amounts imposed by [sections 1 through 53] and who fails to pay the tax is liable to the state for the amounts imposed by [sections 1 through 53] and the penalty and interest due on the amounts.

NEW SECTION. Section 53. Information -- confidentiality -- agreements with another state. (1) (a) Except as provided in subsections (2) and (3), it is unlawful for an employee of the department or any other public official or public employee to divulge or otherwise make known information that is disclosed in a report or return required to be filed under [sections 1 through 53] or information that concerns the affairs of the person

1 making the return and that is acquired from the person's records, officers, or employees in an examination or
2 audit.

3 (b) This section may not be construed to prohibit the department from publishing statistics if they are
4 classified in a way that does not disclose the identity and content of any particular report or return. A person
5 violating the provisions of this section is subject to the penalty provided in 15-30-303 for violating the
6 confidentiality of individual income tax information.

7 (2) (a) In addition to the agreement, the department may enter into other agreements with the taxing
8 officials of other states for the interpretation and administration of the laws of their states that provide for the
9 collection of a sales tax or use tax in order to promote fair and equitable administration of the laws and to
10 eliminate double taxation.

11 (b) In order to implement the provisions of [sections 1 through 53], the department may furnish
12 information on a reciprocal basis to the taxing officials of another state if the information remains confidential
13 under statutes within the state receiving the information that are similar to this section.

14 (3) In order to facilitate processing of returns and payment of taxes required by [sections 1 through 53],
15 the department may contract with vendors and may disclose data to the vendors. The data disclosed must be
16 administered by the vendor in a manner consistent with this section.

17
18 **NEW SECTION. Section 54. Uniform sales and use tax administration.** [Sections 54 through 61]
19 may be cited as the "Uniform Sales and Use Tax Administration Act".

20
21 **NEW SECTION. Section 55. Definitions.** As used in [sections 54 through 61], the following definitions
22 apply:

23 (1) "Agreement" means the Streamlined Sales and Use Tax Agreement.

24 (2) "Certified automated system" means software certified jointly by the states that are signatories to
25 the agreement to calculate the tax imposed by each jurisdiction on a transaction, to determine the amount of tax
26 to remit to the appropriate state, and to maintain a record of the transaction.

27 (3) "Certified service provider" means an agent certified jointly by the states that are signatories to the
28 agreement to perform all of the seller's sales tax functions.

29 (4) "Person" means an individual, trust, estate, fiduciary, partnership, limited liability company, limited
30 liability partnership, corporation, or any other legal entity.

(5) "Sales tax" means the tax levied under [section 2].

(6) "Seller" means a person making sales, leases, or rentals of personal property.

(7) "State" means any state of the United States and the District of Columbia.

(8) "Use tax" means the tax levied under [section 2].

NEW SECTION. Section 56. Authority to enter agreement. (1) The department of revenue is authorized and directed to enter into the agreement with one or more states to simplify and modernize sales tax and use tax administration in order to substantially reduce the burden of tax compliance for all sellers and for all types of commerce. In furtherance of the agreement, the department of revenue is authorized to act jointly with other states that are members of the agreement to establish standards for certification of a certified service provider and a certified automated system and to establish performance standards for multistate sellers.

(2) The department of revenue is further authorized to take other actions reasonably required to implement the provisions of [sections 54 through 61]. Other actions authorized by this section include but are not limited to the adoption of rules and the joint procurement, with other member states, of goods and services in furtherance of the agreement.

(3) The department of revenue or the department of revenue's designee is authorized to represent this state before the other states that are signatories to the agreement.

NEW SECTION. Section 57. Relationship to state law. A provision of the agreement, in whole or in part, does not invalidate or amend any provision of the law of this state. Adoption of the agreement by this state does not amend or modify any law of this state. Implementation of any condition of the agreement within this state, whether adopted before, at, or after membership of this state in the agreement, must be by the action of this state.

NEW SECTION. Section 58. Agreement requirements. The department of revenue may not enter into the agreement unless the agreement requires each state to abide by the following requirements:

(1) The agreement must set restrictions to achieve over time more uniform rates in Montana through the following:

(a) limiting the number of state rates;

(b) limiting the application of maximums on the amount of state tax that is due on a transaction;

1 (c) limiting the application of thresholds on the application of state tax.

2 (2) The agreement must establish uniform standards for the following:

3 (a) the sourcing of transactions to taxing jurisdictions;

4 (b) the administration of exempt sales;

5 (c) the allowances that a seller may take for bad debts;

6 (d) sales tax and use tax returns and remittances.

7 (3) The agreement must require states to develop and adopt uniform definitions of sales tax and use
8 tax terms. The definitions must enable a state to preserve its ability to make policy choices not inconsistent with
9 the uniform definitions.

10 (4) The agreement must provide a central, electronic registration system that allows a seller to register
11 to collect and remit sales taxes and use taxes for all signatory states.

12 (5) The agreement must provide that registration with the central registration system and the collection
13 of sales taxes and use taxes in the signatory states will not be used as a factor in determining whether the seller
14 has nexus with a state for any tax.

15 (6) The agreement must provide for reduction of the burdens of complying with local sales taxes and
16 use taxes through the following:

17 (a) restricting variances between the state and local tax bases;

18 (b) requiring states to administer any sales taxes and use taxes levied by local jurisdictions within the
19 state so that sellers collecting and remitting these taxes will not have to register or file returns with, remit funds
20 to, or be subject to independent audits from local taxing jurisdictions;

21 (c) restricting the frequency of changes in the local sales tax and use tax rates and setting effective
22 dates for the application of local jurisdictional boundary changes to local sales taxes and use taxes;

23 (d) providing notice of changes in local sales tax and use tax rates and of changes in the boundaries
24 of local taxing jurisdictions.

25 (7) The agreement must outline any monetary allowances that are to be provided by the states to sellers
26 or certified service providers.

27 (8) The agreement must require each state to certify compliance with the terms of the agreement prior
28 to joining and to maintain compliance, under the laws of the member state, with all provisions of the agreement
29 while a member.

30 (9) The agreement must require each state to adopt a uniform policy for certified service providers that

protects the privacy of consumers and maintains the confidentiality of tax information.

(10) The agreement must provide for the appointment of an advisory council of private sector representatives and an advisory council of nonmember state representatives to consult with in the administration of the agreement.

NEW SECTION. Section 59. Cooperating sovereigns. The agreement is an accord among individual cooperating sovereigns in furtherance of their governmental functions. The agreement provides a mechanism among the member states to establish and maintain a cooperative, simplified system for the application and administration of sales taxes and use taxes under the adopted law of each member state.

NEW SECTION. Section 60. Limited binding and beneficial effect. (1) The agreement binds and inures only to the benefit of this state and the other member states. No person, other than a member state, is an intended beneficiary of the agreement. Any benefit to a person other than a state is established by the law of this state and the other member states and not by the terms of the agreement.

(2) Consistent with subsection (1), no person has any cause of action or defense under the agreement or by virtue of this state's approval of the agreement. No person may challenge, in any action brought under any provision of law, any action or inaction by any department, agency, or other instrumentality of this state or any political subdivision of this state on the ground that the action or inaction is inconsistent with the agreement.

(3) No law of this state, or the application of a law of this state, may be declared invalid as to any person or circumstance on the ground that the provision or application is inconsistent with the agreement.

NEW SECTION. Section 61. Seller and third-party liability. (1) A certified service provider is the agent of a seller, with whom the certified service provider has contracted, for the collection and remittance of sales taxes and use taxes. As the seller's agent, the certified service provider is liable for sales tax and use tax due each member state on all sales transactions that it processes for the seller, except as set out in this section. A seller that contracts with a certified service provider is not liable to the state for sales tax or use tax due on transactions processed by the certified service provider unless the seller misrepresented the type of items that it sells or committed fraud. In the absence of probable cause to believe that the seller has committed fraud or made a material misrepresentation, the seller is not subject to audit on the transactions processed by the certified service provider. A seller is subject to audit for transactions not processed by the certified service

1 provider. The member states acting jointly may perform a system check of the seller and review the seller's
2 procedures to determine if the certified service provider's system is functioning properly and the extent to which
3 the seller's transactions are being processed by the certified service provider.

4 (2) A person that provides a certified service system is responsible for the proper functioning of that
5 system and is liable to the state for underpayments of tax attributable to errors in the functioning of the certified
6 automated system. A seller that uses a certified automated system remains responsible and is liable to the state
7 for reporting and remitting tax.

8 (3) A seller that has a proprietary system for determining the amount of tax due on transactions and has
9 signed an agreement establishing a performance standard for that system is liable for the failure of the system
10 to meet the performance standard.

11
12 **NEW SECTION. Section 62. Distribution of sales tax and use tax collections.** (1) The collections
13 of sales tax and use tax collected under the provisions of [sections 1 through 53] are to be deposited in a special
14 revenue account. The money in the account must be appropriated in the amount necessary for the:

15 (a) elementary BASE funding program as provided in 20-9-331;
16 (b) high school BASE funding program as provided in 20-9-333; and
17 (c) final 5 years of declining reimbursements to local governments for the rate reduction in class eight
18 business property under 15-1-111, which was administered through withholding of state payments of the 40 mills
19 levied pursuant to former 20-9-360.

20 (2) The balance after the funding required by subsection (1) must be transferred to the state general
21 fund.

22
23 **Section 63.** Section 15-1-111, MCA, is amended to read:

24 **"15-1-111. (Temporary) Reimbursement to local governments and schools -- duties of department**
25 **and county treasurer -- statutory appropriation.** (1) Prior to September 1, 1990, the department's agent in
26 the county shall supply the following information to the department for each taxing jurisdiction within the county:

27 (a) the number of mills levied in the jurisdiction for tax year 1989;
28 (b) the number of mills levied in the jurisdiction for tax year 1990;
29 (c) the total taxable valuation for tax years 1989 and 1990, reported separately for each year, of all
30 personal property not secured by real property; and

(d) the total taxable valuation for tax years 1989 and 1990, reported separately for each year, of all personal property secured by real property.

(2) After receipt of the information from its agent, the department shall calculate the amount of revenue lost to each taxing jurisdiction, using current year mill levies, due to the annual reduction in personal property tax rates set forth in 15-6-138, prior to 1994, and any reduction in taxes based upon recalculation of the effective tax rate for property in 15-6-145, prior to 1994. The department shall total the amounts for all taxing jurisdictions within the county.

(3) (a) The department shall remit to the county treasurer 50% of the amount of revenue reimbursable, determined pursuant to subsection (1), on or before November 30 and the remaining 50% on or before May 31.

(b) For tax year 1993 through tax year 1998, the department shall remit to the county treasurer of each county the same amount remitted to the county treasurer for the fiscal year 1991, as adjusted by the result of dissolved or combined taxing jurisdictions, as provided for in subsection (7). Fifty percent of the amount must be remitted on or before November 30 and the remaining 50% on or before May 31.

(c) (i) For tax year 1999 through tax year 2008, the department shall remit to the county treasurer of each county the same amount remitted to the county treasurer for the fiscal year 1991, progressively reduced by 10% of the 1991 amount each year, in accordance with the following schedule:

Tax Year	Percentage of 1991 Remittance Amount
1999	90
2000	80
2001	70
2002	60
2003	50
2004	40
2005	30
2006	20
2007	10
2008 and following years	0

(ii) The amount remitted must be adjusted by the result of dissolved or combined taxing jurisdictions, as provided for in subsection (7). Fifty percent of the amount must be remitted on or before November 30 and

the remaining 50% on or before May 31.

(4) Upon receipt of the reimbursement from the department, the county treasurer shall distribute the reimbursement to each taxing jurisdiction as calculated by the department.

(5) (a) For the purposes of this section and subject to subsection (7), "taxing jurisdiction" means a jurisdiction levying mills against personal property and includes but is not limited to a county, city, school district, tax increment financing district, and miscellaneous taxing district.

(b) The term does not include ~~county or state school equalization levies provided for in 15-10-107, 20-9-331, 20-9-333, 20-9-360, 20-25-423, and the vocational-technical education levy provided for in 20-25-439.~~

(6) The amounts necessary for the administration of this section are statutorily appropriated, as provided in 17-7-502, from the general fund to reimburse eligible taxing jurisdictions for reductions in tax rates on personal property.

(7) The following apply to taxing jurisdictions that were altered after tax year 1989:

(a) A taxing jurisdiction that existed in tax year 1989 and that no longer exists is not entitled to reimbursement under this section.

(b) A taxing jurisdiction that existed in tax year 1989 and that is split into two or more taxing jurisdictions or that is annexed to or is consolidated with another taxing jurisdiction is entitled to reimbursement based on the portion of 1989 taxable value within each new taxing jurisdiction. The department shall determine the portion of 1989 taxable value located in each taxing jurisdiction.

(c) A taxing jurisdiction that did not exist in tax year 1989 is not entitled to reimbursement under this section unless the jurisdiction was created as described in subsection (7)(b). (Repealed effective July 1, 2008--secs. 66(2), 68(2), Ch. 422, L. 1997.)"

Section 64. Section 15-1-112, MCA, is amended to read:

"15-1-112. Business equipment tax rate reduction reimbursement to local government taxing jurisdictions. (1) ~~On or before January 1, 1996, for the reduction in payment under subsection (4) and by June 1 of 1996, 1997, and 1998 for all other reimbursements in this section, the~~ The department shall determine a reimbursement amount associated with reducing the tax rate in 15-6-138 as provided in Chapter 570, Laws of 1995. ~~and provide that information to each county treasurer.~~ The reimbursement amount must be determined for each local government taxing jurisdiction that levied mills on the taxable value of property described in ~~15-6-138 in the corresponding tax year. However, the reimbursement does not apply to property described in~~

~~15-6-138 that has a reduced tax rate under 15-24-1402 county based upon reimbursement amounts for tax year 1999 for distribution by the county as provided in subsection (2). The annual amount must be appropriated from the special revenue account for the collection of sales tax and use tax provided for in [section 62].~~

~~(2) (a) The reimbursement amount to be used as the basis for the payment reduction under subsection (4) is the product of multiplying the tax year 1995 taxable value of property described in 15-6-138 for each local government taxing jurisdiction by the tax year 1995 mill levy for the jurisdiction and then multiplying by 1/9th.~~

~~———— (b) (i) The reimbursement amount for each local government taxing jurisdiction for tax year 1996 is the amount determined under subsection (2)(a) unless the tax year 1996 market value of property described in 15-6-138, for the particular local government taxing jurisdiction, is more than the tax year 1995 market value for property described in 15-6-138 in the same jurisdiction.~~

~~———— (ii) If the tax year 1996 market value is greater than the tax year 1995 market value for a particular jurisdiction, then the reimbursement amount for tax year 1996 is the result of subtracting the simulated 1996 tax from the 1995 tax. The 1995 tax is the tax for the particular jurisdiction, determined by multiplying the actual taxable valuation of property described in 15-6-138, for tax year 1995, by the tax year 1995 mill levy for the jurisdiction. The simulated 1996 tax for the particular jurisdiction is the actual tax year 1996 taxable value of property described in 15-6-138 multiplied by the tax year 1995 mill levy for the particular jurisdiction. If the simulated 1996 tax is greater than the 1995 tax, the reimbursement amount is zero.~~

~~———— (c) (i) The reimbursement amount for each local government taxing jurisdiction for tax year 1997 is the amount determined under subsection (2)(a) multiplied by two unless the tax year 1997 market value of property described in 15-6-138, for the particular local government taxing jurisdiction, is more than the tax year 1995 market value for property described in 15-6-138 in the same jurisdiction.~~

~~———— (ii) If the tax year 1997 market value is greater than the tax year 1995 market value for a particular jurisdiction, then the reimbursement amount for tax year 1997 is the result of subtracting the simulated 1997 tax from the 1995 tax. The 1995 tax is the tax for the particular jurisdiction, determined by multiplying the actual taxable valuation of property described in 15-6-138, for tax year 1995, by the tax year 1995 mill levy for the jurisdiction. The simulated 1997 tax for the particular jurisdiction is the actual tax year 1997 taxable value of property described in 15-6-138 multiplied by the tax year 1995 mill levy for the particular jurisdiction. If the simulated 1997 tax is greater than the 1995 tax, the reimbursement amount is zero.~~

~~———— (d) (i) The reimbursement amount for each local government taxing jurisdiction for tax year 1998 is the amount determined under subsection (2)(a) multiplied by three unless the tax year 1998 market value of property~~

described in 15-6-138, for the particular local government taxing jurisdiction, is more than the tax year 1995 market value for property described in 15-6-138 in the same jurisdiction:

(ii) If the tax year 1998 market value is greater than the tax year 1995 market value for a particular jurisdiction, then the reimbursement amount for tax year 1998 is the result of subtracting the simulated 1998 tax from the 1995 tax. The 1995 tax is the tax for the particular jurisdiction, determined by multiplying the actual taxable valuation of property described in 15-6-138, for tax year 1995, by the tax year 1995 mill levy for the jurisdiction. The simulated 1998 tax for the particular jurisdiction is the actual tax year 1998 taxable value of property described in 15-6-138 multiplied by the tax year 1995 mill levy for the particular jurisdiction. If the simulated 1998 tax is greater than the 1995 tax, the reimbursement amount is zero:

(3) (a) For purposes of this section, "local government taxing jurisdiction" means a local government rather than a state taxing jurisdiction that levied mills against property described in 15-6-138, including county governments, incorporated city and town governments, consolidated county and city governments, tax increment financing districts, local elementary and high school districts, local community college districts, miscellaneous districts, and special districts. The term includes countywide mills levied for equalization of school retirement or transportation:

(b) The term does not include county or state school equalization levies provided for in 20-9-331, 20-9-333, 20-9-360, and 20-25-439:

(c) Each tax increment financing district must receive the benefit of the state mill on the incremental taxable value of the district:

(4) County treasurers shall reduce the county payment to the state for the levy imposed under 20-9-360 in June of 1996 by an amount equal to 38% of the reimbursement amount determined under subsection (2)(a) for all of the local government taxing jurisdictions in the county:

(5) County treasurers shall reduce the county payment to the state for the levy imposed under 20-9-360 in December of 1996 by an amount equal to 31% of the reimbursement amount for tax year 1996 for all of the local government taxing jurisdictions in the county, as determined by the department under subsection (2):

(6) County treasurers shall reduce the county payment to the state for the levy imposed under 20-9-360 in June of 1997 by an amount equal to 31% of the reimbursement amount for tax year 1996 for all of the local government taxing jurisdictions in the county and by an amount equal to 38% of the reimbursement amount for tax year 1997 for all of the local government taxing jurisdictions in the county, as determined by the department under subsection (2):

~~———— (7) County treasurers shall reduce the county payment to the state for the levy imposed under 20-9-360 in December of 1997 by an amount equal to 31% of the reimbursement amount for tax year 1997 for all of the local government taxing jurisdictions in the county, as determined by the department under subsection (2).~~

~~———— (8) County treasurers shall reduce the county payment to the state for the levy imposed under 20-9-360 in June of 1998 by an amount equal to 31% of the reimbursement amount for tax year 1997 for all of the local government taxing jurisdictions in the county and by an amount equal to 38% of the reimbursement amount for tax year 1998 for all of the local government taxing jurisdictions in the county, as determined by the department under subsection (2).~~

~~———— (9) County treasurers shall reduce the county payment to the state for the levy imposed under 20-9-360 in December of 1998 by an amount equal to 31% of the reimbursement amount for tax year 1998 for all of the local government taxing jurisdictions in the county, as determined by the department under subsection (2).~~

~~———— (10) County treasurers shall reduce the county payment to the state for the levy imposed under 20-9-360 in June of 1999 by an amount equal to 69% of the reimbursement amount for tax year 1998 for all of the local government taxing jurisdictions in the county, as determined by the department under subsection (2).~~

~~———— (11) County treasurers shall reduce the county payment to the state for the levy imposed under 20-9-360 in December of the years 1999 through 2007 by an amount equal to 31% of the reimbursement amount determined in subsection (13) for all of the local government taxing jurisdictions in the county, as determined by the department under subsection (2).~~

~~———— (12) County treasurers shall reduce the county payment to the state for the levy imposed under 20-9-360 in June of the years 2000 through 2008 by an amount equal to 69% of the reimbursement amount determined in subsection (13) for all of the local government taxing jurisdictions in the county, as determined by the department under subsection (2).~~

~~(13)(2)~~ (a) The reimbursement amount for tax year ~~1999~~ 2003 and each subsequent tax year for 9 years must be progressively reduced each year by 10% of the reimbursement amount for tax year 1998, according to the following schedule:

Tax Year	Percentage of 1998
Reimbursement Amount	
1999	90
2000	80
2001	70

1	<u>2002</u>	60
2	2003	50
3	2004	40
4	2005	30
5	2006	20
6	2007	10
7	2008 and following years	0

8 (b) ~~The~~ Of the reimbursement amount, ~~for each tax year must be the basis for reducing the amount~~
 9 ~~remitted to the state for the levy imposed under 20-9-360~~ 31% must be distributed in December of the ~~same tax~~
 10 year and 69% must be distributed in June of the following year.

11 ~~(14)(3)~~ The county treasurer shall use the funds ~~from the reduced payment to the state for the levy~~
 12 ~~imposed under 20-9-360~~ to reimburse each local government taxing jurisdiction in the amount determined by
 13 the department ~~under subsection (2)~~. The reimbursement must be distributed to funds within local government
 14 taxing jurisdictions in the same manner as taxes on property described in 15-6-138 are distributed. The
 15 reimbursement in June must be distributed based on the prior year's mill levy, and the reimbursement in
 16 December must be based on the current year's mill levy.

17 ~~(15)(4)~~ Each local government taxing jurisdiction receiving reimbursements shall consider the amount
 18 of reimbursement that will be received and lower the mill levy otherwise necessary to fund the budget by the
 19 amount that would otherwise have to be raised by the mill levy.

20 ~~(16)(5)~~ A local government taxing jurisdiction that ceases to exist after October 1, 1995, will no longer
 21 be considered for revenue loss or reimbursement purposes. A local government taxing jurisdiction that is created
 22 after January 1, 1996, will not be considered for revenue loss or reimbursement purposes. If a local government
 23 taxing jurisdiction that existed prior to January of 1996 is split between two or more taxing jurisdictions or is
 24 annexed to or is consolidated with another taxing jurisdiction, the department shall determine how much of the
 25 revenue loss and reimbursement is attributed to the new jurisdictions."

26
 27 **Section 65.** Section 15-1-501, MCA, is amended to read:

28 **"15-1-501. Disposition of money from certain designated license and other taxes.** (1) The state
 29 treasurer shall deposit to the credit of the state general fund in accordance with the provisions of subsection (3)
 30 all money received from the collection of:

- (a) income taxes, interest, and penalties collected under chapter 30;
- (b) all taxes, interest, and penalties collected under chapter 31;
- (c) oil and natural gas production taxes distributed to the general fund under 15-36-324;
- (d) electrical energy producer's license taxes under chapter 51;
- (e) the retail telecommunications excise tax collected under Title 15, chapter 53, part 1;
- (f) liquor license taxes under Title 16;
- (g) fees from driver's licenses, motorcycle endorsements, and duplicate driver's licenses as provided in 61-5-121;
- (h) estate taxes under Title 72, chapter 16; ~~and~~
- (i) fees based on the value of currency on deposit and tangible personal property held for safekeeping by a foreign capital depository as provided in 15-31-803; and
- (j) sales tax and use tax collections in excess of the specific allocations as provided in [section 62(2)].
- (2) The department shall also deposit to the credit of the state general fund all money received from the collection of license taxes and all net revenue and receipts from all sources, other than certain fees, under the operation of the Montana Alcoholic Beverage Code.
- (3) Notwithstanding any other provision of law, the distribution of tax revenue must be made according to the provisions of the law governing allocation of the tax that were in effect for the period in which the tax revenue was recorded for accounting purposes. Tax revenue must be recorded as prescribed by the department of administration, pursuant to 17-1-102(2) and (4), in accordance with generally accepted accounting principles.
- (4) All refunds of taxes must be attributed to the funds in which the taxes are currently being recorded. All refunds of interest and penalties must be attributed to the funds in which the interest and penalties are currently being recorded."

Section 66. Section 15-10-420, MCA, is amended to read:

"15-10-420. Procedure for calculating levy. (1) (a) Subject to the provisions of this section, a governmental entity that is authorized to impose mills may impose a mill levy sufficient to generate the amount of property taxes actually assessed in the prior year plus one-half of the average rate of inflation for the prior 3 years. The maximum number of mills that a governmental entity may impose is established by calculating the number of mills required to generate the amount of property tax actually assessed in the governmental unit in the prior year based on the current year taxable value, less the current year's value of newly taxable property,

1 plus one-half of the average rate of inflation for the prior 3 years.

2 (b) A governmental entity that does not impose the maximum number of mills authorized under
3 subsection (1)(a) may carry forward the authority to impose the number of mills equal to the difference between
4 the actual number of mills imposed and the maximum number of mills authorized to be imposed. The mill
5 authority carried forward may be imposed in a subsequent tax year.

6 (c) For the purposes of subsection (1)(a), the department shall calculate one-half of the average rate
7 of inflation for the prior 3 years by using the consumer price index, U.S. city average, all urban consumers, using
8 the 1982-84 base of 100, as published by the bureau of labor statistics of the United States department of labor.

9 (2) A governmental entity may apply the levy calculated pursuant to subsection (1)(a) plus any additional
10 levies authorized by the voters, as provided in 15-10-425, to all property in the governmental unit, including
11 newly taxable property.

12 (3) For purposes of this section, newly taxable property includes:

13 (a) annexation of real property and improvements into a taxing unit;

14 (b) construction, expansion, or remodeling of improvements;

15 (c) transfer of property into a taxing unit;

16 (d) subdivision of real property; and

17 (e) transfer of property from tax-exempt to taxable status.

18 (4) (a) For the purposes of subsection (1), the taxable value of newly taxable property includes the
19 release of taxable value from the incremental taxable value of a tax increment financing district because of:

20 (i) a change in the boundary of a tax increment financing district;

21 (ii) an increase in the base value of the tax increment financing district pursuant to 7-15-4287; or

22 (iii) the termination of a tax increment financing district.

23 (b) For the purpose of subsection (3)(d), the subdivision of real property includes the first sale of real
24 property that results in the property being taxable as class four property or as nonagricultural land as described
25 in 15-6-133(1)(c).

26 (c) For the purposes of this section, newly taxable property does not include an increase in appraised
27 value of land that was previously valued at 75% of the value of improvements on the land, as provided in
28 15-7-111(4) and (5), as those subsections applied on December 31, 2001.

29 (5) Subject to subsection (8), subsection (1)(a) does not apply to:

30 (a) school district levies established in Title 20; or

(b) the portion of a governmental entity's property tax levy for premium contributions for group benefits excluded under 2-9-212 or 2-18-703.

(6) For purposes of subsection (1)(a), taxes imposed do not include net or gross proceeds taxes received under 15-6-131 and 15-6-132.

(7) In determining the maximum number of mills in subsection (1)(a), the governmental entity may increase the number of mills to account for a decrease in reimbursements.

(8) The department shall calculate, on a statewide basis, the number of mills to be imposed for purposes of ~~15-10-107, 20-9-331, 20-9-333, 20-9-360, 20-25-423, and 20-25-439~~. However, the number of mills calculated by the department may not exceed the mill levy ~~limits~~ limit established in ~~those sections~~ that section. The mill calculation must be established in whole mills. If the mill levy calculation does not result in a whole number of mills, then the calculation must be rounded up to the nearest whole mill.

(9) (a) The provisions of subsection (1) do not prevent or restrict:

(i) a judgment levy under 2-9-316 or 7-7-2202;

(ii) a levy to repay taxes paid under protest as provided in 15-1-402; or

(iii) an emergency levy authorized under 10-3-405, 20-9-168, or 20-15-326.

(b) A levy authorized under subsection (9)(a) may not be included in the amount of property taxes actually assessed in a subsequent year.

(10) The department may adopt rules to implement this section. The rules may include a method for calculating the percentage of change in valuation for purposes of determining the elimination of property, new improvements, or newly taxable property in a governmental unit."

Section 67. Section 15-24-1402, MCA, is amended to read:

"15-24-1402. New or expanding industry -- assessment -- notification. (1) In the first 5 years after a construction permit is issued, qualifying improvements or modernized processes that represent new industry or expansion of an existing industry, as designated in the approving resolution, must be taxed at 50% of their taxable value. Subject to 15-10-420, each succeeding year ~~thereafter~~, the percentage must be increased by equal percentages until the full taxable value is attained in the 10th year. In subsequent years, the property must be taxed at 100% of its taxable value.

(2) (a) In order for a taxpayer to receive the tax benefits described in subsection (1), the governing body of the affected county or the incorporated city or town must have approved by separate resolution for each

1 project, following due notice as defined in 76-15-103 and a public hearing, the use of the schedule provided for
2 in subsection (1) for its respective jurisdiction. The governing body may not grant approval for the project until
3 all of the applicant's taxes have been paid in full. Taxes paid under protest do not preclude approval.

4 (b) Subject to 15-10-420, the governing body may end the tax benefits by majority vote at any time, but
5 the tax benefits may not be denied an industrial facility that previously qualified for the benefits.

6 (c) The resolution provided for in subsection (2)(a) must include a definition of the improvements or
7 modernized processes that qualify for the tax treatment that is to be allowed in the taxing jurisdiction. The
8 resolution may provide that real property other than land, personal property, improvements, or any combination
9 ~~thereof of land, personal property, or improvements~~ is eligible for the tax benefits described in subsection (1).

10 (3) The taxpayer shall apply to the department for the tax treatment allowed under subsection (1). The
11 application by the taxpayer must first be approved by the governing body of the appropriate local taxing
12 jurisdiction, and the governing body shall indicate in its approval that the property of the applicant qualifies for
13 the tax treatment provided for in this section. Upon receipt of the form with the approval of the governing body
14 of the affected taxing jurisdiction, the department shall make the assessment change pursuant to this section.

15 (4) The tax benefit described in subsection (1) applies only to the number of mills levied and assessed
16 for local high school district and elementary school district purposes and to the number of mills levied and
17 assessed by the governing body approving the benefit over which the governing body has sole discretion. The
18 benefit described in subsection (1) may not apply to levies or assessments required under Title 15, chapter 10,
19 ~~20-9-331, 20-9-333, or 20-9-360 or otherwise required~~ under state law.

20 (5) Prior to approving the resolution under this section, the governing body shall notify by certified mail
21 all taxing jurisdictions affected by the tax benefit."

22
23 **Section 68.** Section 15-24-1703, MCA, is amended to read:

24 **"15-24-1703. Application of suspension or cancellation.** The suspension or cancellation of
25 delinquent property taxes pursuant to this part:

26 (1) applies to all mills levied in the county or otherwise required under state law, ~~including levies or~~
27 ~~assessments required under Title 15, chapter 10, 20-9-331, 20-9-333, and 20-25-423;~~

28 (2) does not apply to assessments made against property for the payment of bonds issued pursuant
29 to Title 7, chapter 12."

1 **Section 69.** Section 15-24-1802, MCA, is amended to read:

2 **"15-24-1802. Business incubator tax exemption -- procedure.** (1) A business incubator owned or
3 leased and operated by a local economic development organization is eligible for an exemption from property
4 taxes as provided in this section.

5 (2) In order to qualify for the tax exemption described in this section, the governing body of the county,
6 consolidated government, incorporated city or town, or school district in which the property is located shall
7 approve the tax exemption by resolution, after due notice, as defined in 76-15-103, and hearing. The governing
8 body may approve or disapprove the tax exemption provided for in subsection (1). If a tax exemption is
9 approved, the governing body shall do so by a separate resolution for each business incubator in its respective
10 jurisdiction. The governing body may not grant approval for the business incubator until all of the applicant's
11 taxes have been paid in full or, if the property is leased to a business incubator, until all of the owner's property
12 taxes on that property have been paid in full. Taxes paid under protest do not preclude approval. Prior to holding
13 the hearing, the governing body shall determine that the local economic development organization:

14 (a) is a private, nonprofit corporation as provided in Title 35, chapter 2, and is exempt from taxation
15 under section 501(c)(3) or 501(c)(6) of the Internal Revenue Code;

16 (b) is engaged in economic development and business assistance work in the area; and

17 (c) owns or leases and operates or will operate the business incubator.

18 (3) Upon receipt of approval of the governing body of the affected taxing jurisdiction, the department
19 shall make the assessment change for the tax exemption provided for in this section.

20 (4) The tax exemption described in subsection (1) applies only to the number of mills levied and
21 assessed by the governing body approving the exemption over which the governing body has sole discretion.
22 If the governing body of a county, consolidated government, or incorporated city or town approves the
23 exemption, the exemption applies to levies and assessments required under Title 15, chapter 10, 20-9-331, or
24 ~~20-9-333 or otherwise required~~ under state law."

25
26 **Section 70.** Section 15-24-1902, MCA, is amended to read:

27 **"15-24-1902. Industrial park tax exemption -- procedure -- termination.** (1) An industrial park owned
28 and operated by a local economic development organization or a port authority is eligible for an exemption from
29 property taxes as provided in this section.

30 (2) In order to qualify for the tax exemption described in this section, the governing body of the county,

consolidated government, incorporated city or town, or school district in which the property is located shall approve the tax exemption by resolution, after due notice, as defined in 76-15-103, and hearing. The governing body may approve or disapprove the tax exemption provided for in subsection (1). If a tax exemption is approved, the governing body shall do so by a separate resolution for each industrial park in its respective jurisdiction. The governing body may not grant approval for the industrial park until all of the applicant's taxes have been paid in full. Taxes paid under protest do not preclude approval. Prior to holding the hearing, the governing body shall determine that:

(a) the local economic development organization:

(i) is a private, nonprofit corporation as provided in Title 35, chapter 2, and is exempt from taxation under section 501(c)(3) or 501(c)(6) of the Internal Revenue Code;

(ii) is engaged in economic development and business assistance work in the area; and

(iii) owns and operates or will own and operate the industrial development park; or

(b) the port authority legally exists under the provisions of 7-14-1101 or 7-14-1102.

(3) Upon receipt of approval of the governing body of the affected taxing jurisdiction, the department shall make the assessment change for the tax exemption provided for in this section.

(4) The tax exemption described in subsection (1) applies only to the number of mills levied and assessed by the governing body approving the exemption over which the governing body has sole discretion. If the governing body of a county, consolidated government, or incorporated city or town approves the exemption, the exemption applies to levies or assessments required under ~~Title 15, chapter 10, 20-9-331, or 20-9-333 or otherwise required under state law.~~

(5) If a local economic development organization sells, leases, or otherwise disposes of the exempt property to a purchaser or lessee that is not a local economic development organization or a unit of federal, state, or local government, the tax exemption provided in this section terminates. The termination of the exemption applies January 1 of the taxable year immediately following the sale, lease, or other disposition of the property. Upon termination of the exemption, the property must be assessed as provided in 15-16-203."

Section 71. Section 15-24-2002, MCA, is amended to read:

"15-24-2002. Building and land tax exemption -- procedure -- termination. (1) A building and land owned by a local economic development organization that the local economic development organization intends to sell or lease to a profit-oriented, employment-stimulating business are eligible for an exemption from property

1 taxes as provided in this section.

2 (2) In order to qualify for the tax exemption described in this section, the governing body of the affected
3 county, consolidated government, incorporated city or town, or school district in which the building and land are
4 located shall approve the tax exemption by resolution, after due notice, as defined in 76-15-103, and hearing.
5 The governing body may approve or disapprove the tax exemption provided for in subsection (1). The governing
6 body shall approve a tax exemption by a separate resolution. The governing body may not grant approval for
7 the building and land until all of the applicant's taxes have been paid in full. Taxes paid under protest do not
8 preclude approval. Prior to holding the hearing, the governing body shall determine that the local economic
9 development organization:

10 (a) is a private, nonprofit corporation, as provided in Title 35, chapter 2, and is exempt from taxation
11 under section 501(c)(3) or 501(c)(6) of the Internal Revenue Code;

12 (b) is engaged in economic development and business assistance work in the area; and

13 (c) owns or will own the building and land.

14 (3) Upon receipt of approval of the governing body of the affected taxing jurisdiction, the department
15 shall make the assessment change for the tax exemption provided for in this section.

16 (4) The tax exemption described in subsection (1) applies only to the number of mills levied and
17 assessed by the governing body approving the exemption over which the governing body has sole discretion.
18 If the governing body of a county, consolidated government, or incorporated city or town approves the
19 exemption, the exemption applies to levies or assessments required under ~~Title 15, chapter 10, 20-9-331, or~~
20 ~~20-9-333 and other levies required under state law.~~

21 (5) When a local economic development organization sells, leases, or otherwise disposes of the exempt
22 property to a purchaser or lessee that is not a local economic development organization or a unit of federal,
23 state, or local government, the tax exemption provided in this section terminates. The termination of the
24 exemption applies January 1 of the taxable year immediately following the sale, lease, or other disposition of
25 the property. Upon termination of the exemption, the property must be assessed as provided in 15-16-203."

26
27 **Section 72.** Section 15-30-101, MCA, is amended to read:

28 **"15-30-101. Definitions.** For the purpose of this chapter, unless otherwise required by the context, the
29 following definitions apply:

30 (1) "Base year structure" means the following elements of the income tax structure:

1 (a) the tax brackets established in 15-30-103, but unadjusted by 15-30-103(2), in effect on June 30 of
2 the taxable year;

3 (b) the exemptions contained in 15-30-112, but unadjusted by 15-30-112(6), in effect on June 30 of the
4 taxable year;

5 (c) the maximum standard deduction provided in 15-30-122, but unadjusted by 15-30-122(2), in effect
6 on June 30 of the taxable year.

7 (2) "Consumer price index" means the consumer price index, United States city average, for all items,
8 using the 1967 base of 100 as published by the bureau of labor statistics of the U.S. department of labor.

9 (3) "Corporation" or "C. corporation" means a corporation, limited liability company, or other entity:

10 (a) that is treated as an association for federal income tax purposes;

11 (b) for which a valid election under section 1362 of the Internal Revenue Code (26 U.S.C. 1362) is not
12 in effect; and

13 (c) that is not a disregarded entity.

14 (4) "Department" means the department of revenue.

15 (5) "Disregarded entity" means a business entity:

16 (a) that is disregarded as an entity separate from its owner for federal tax purposes, as provided in
17 United States treasury regulations 301.7701-2 or 301.7701-3, 26 CFR 301.7701-2 or 26 CFR 301.7701-3, or
18 as those regulations may be labeled or amended; or

19 (b) that is a qualified subchapter S. subsidiary that is not treated as a separate corporation, as provided
20 in section 1361(b)(3) of the Internal Revenue Code (26 U.S.C. 1361(b)(3)).

21 (6) "Dividend" means:

22 (a) any distribution made by a C. corporation out of its earnings and profits to its shareholders or
23 members, whether in cash or in other property or in stock of the corporation, other than stock dividends; and

24 (b) any distribution made by an S. corporation treated as a dividend for federal income tax purposes.

25 (7) "Fiduciary" means a guardian, trustee, executor, administrator, receiver, conservator, or any person,
26 whether individual or corporate, acting in any fiduciary capacity for any person, trust, or estate.

27 (8) "Foreign government" means any jurisdiction other than the one embraced within the United States,
28 its territories, and its possessions.

29 (9) "Gross income" means the taxpayer's gross income for federal income tax purposes as defined in
30 section 61 of the Internal Revenue Code (26 U.S.C. 61) or as that section may be labeled or amended, excluding

unemployment compensation included in federal gross income under the provisions of section 85 of the Internal Revenue Code (26 U.S.C. 85) as amended.

(10) "Inflation factor" means a number determined for each tax year by dividing the consumer price index for June of the tax year by the consumer price index for June 2003 for the purposes of 15-30-103 and June 1980 for all other purposes.

(11) "Information agents" includes all individuals and entities acting in whatever capacity, including lessees or mortgagors of real or personal property, fiduciaries, brokers, real estate brokers, employers, and all officers and employees of the state or of any municipal corporation or political subdivision of the state, having the control, receipt, custody, disposal, or payment of interest, rent, salaries, wages, premiums, annuities, compensations, remunerations, emoluments, or other fixed or determinable annual or periodical gains, profits, and income with respect to which any person or fiduciary is taxable under this chapter.

(12) "Internal Revenue Code" means the Internal Revenue Code of 1986, as amended, or as it may be labeled or further amended. References to specific provisions of the Internal Revenue Code mean those provisions as they may be otherwise labeled or further amended.

(13) "Knowingly" is as defined in 45-2-101.

(14) "Limited liability company" means a limited liability company, domestic limited liability company, or a foreign limited liability company as defined in 35-8-102.

(15) "Limited liability partnership" means a limited liability partnership as defined in 35-10-102.

(16) "Lottery winnings" means income paid either in lump sum or in periodic payments to:

(a) a resident taxpayer on a lottery ticket; or

(b) a nonresident taxpayer on a lottery ticket purchased in Montana.

(17) (a) "Montana source income" means:

(i) wages, salary, tips, and other compensation for services performed in the state or while a resident of the state;

(ii) gain attributable to the sale or other transfer of tangible property located in the state, sold or otherwise transferred while a resident of the state, or used or held in connection with a trade, business, or occupation carried on in the state;

(iii) gain attributable to the sale or other transfer of intangible property received or accrued while a resident of the state;

(iv) interest received or accrued while a resident of the state or from an installment sale of real property

1 or tangible commercial or business personal property located in the state;

2 (v) dividends received or accrued while a resident of the state;

3 (vi) net income or loss derived from a trade, business, profession, or occupation carried on in the state
4 or while a resident of the state;

5 (vii) net income or loss derived from farming activities carried on in the state or while a resident of the
6 state;

7 (viii) net rents from real property and tangible personal property located in the state or received or
8 accrued while a resident of the state;

9 (ix) net royalties from real property and from tangible real property to the extent the property is used in
10 the state or the net royalties are received or accrued while a resident of the state. The extent of use in the state
11 is determined by multiplying the royalties by a fraction, the numerator of which is the number of days of physical
12 location of the property in the state during the royalty period in the tax year and the denominator of which is the
13 number of days of physical location of the property everywhere during all royalty periods in the tax year. If the
14 physical location is unknown or unascertainable by the taxpayer, the property is considered used in the state
15 in which it was located at the time the person paying the royalty obtained possession.

16 (x) patent royalties to the extent the person paying them employs the patent in production, fabrication,
17 manufacturing, or other processing in the state, a patented product is produced in the state, or the royalties are
18 received or accrued while a resident of the state;

19 (xi) net copyright royalties to the extent printing or other publication originates in the state or the royalties
20 are received or accrued while a resident of the state;

21 (xii) partnership income, gain, loss, deduction, or credit or item of income, gain, loss, deduction, or credit:

22 (A) derived from a trade, business, occupation, or profession carried on in the state;

23 (B) derived from the sale or other transfer or the rental, lease, or other commercial exploitation of
24 property located in the state; or

25 (C) taken into account while a resident of the state;

26 (xiii) an S. corporation's separately and nonseparately stated income, gain, loss, deduction, or credit or
27 item of income, gain, loss, deduction, or credit:

28 (A) derived from a trade, business, occupation, or profession carried on in the state;

29 (B) derived from the sale or other transfer or the rental, lease, or other commercial exploitation of
30 property located in the state; or

1 (C) taken into account while a resident of the state;

2 (xiv) social security benefits received or accrued while a resident of the state;

3 (xv) taxable individual retirement account distributions, annuities, pensions, and other retirement benefits
4 received while a resident of the state; and

5 (xvi) any other income attributable to the state, including but not limited to lottery winnings, state and
6 federal tax refunds, nonemployee compensation, recapture of tax benefits, and capital loss addbacks.

7 (b) The term does not include:

8 (i) compensation for military service of members of the armed services of the United States who are
9 not Montana residents and who are residing in Montana solely by reason of compliance with military orders and
10 does not include income derived from their personal property located in the state except with respect to personal
11 property used in or arising from a trade or business carried on in Montana; or

12 (ii) interest paid on loans held by out-of-state financial institutions recognized as such in the state of their
13 domicile, secured by mortgages, trust indentures, or other security interests on real or personal property located
14 in the state, if the loan is originated by a lender doing business in Montana and assigned out-of-state and there
15 is no activity conducted by the out-of-state lender in Montana except periodic inspection of the security.

16 (18) "Net income" means the adjusted gross income of a taxpayer less the deductions allowed by this
17 chapter.

18 (19) "Nonresident" means a natural person who is not a resident.

19 (20) "Paid", for the purposes of the deductions and credits under this chapter, means paid or accrued
20 or paid or incurred, and the terms "paid or accrued" and "paid or incurred" must be construed according to the
21 method of accounting upon the basis of which the taxable income is computed under this chapter.

22 (21) "Partner" means a member of a partnership or a manager or member of any other entity, if treated
23 as a partner for federal income tax purposes.

24 (22) "Partnership" means a general or limited partnership, limited liability partnership, limited liability
25 company, or other entity, if treated as a partnership for federal income tax purposes.

26 (23) "Pass-through entity" means a partnership, an S. corporation, or a disregarded entity.

27 (24) "Pension and annuity income" means:

28 (a) systematic payments of a definitely determinable amount from a qualified pension plan, as that term
29 is used in section 401 of the Internal Revenue Code (26 U.S.C. 401), or systematic payments received as the
30 result of contributions made to a qualified pension plan that are paid to the recipient or recipient's beneficiary

1 upon the cessation of employment;

2 (b) payments received as the result of past service and cessation of employment in the uniformed
3 services of the United States;

4 (c) lump-sum distributions from pension or profit-sharing plans to the extent that the distributions are
5 included in federal adjusted gross income;

6 (d) distributions from individual retirement, deferred compensation, and self-employed retirement plans
7 recognized under sections 401 through 408 of the Internal Revenue Code (26 U.S.C. 401 through 408) to the
8 extent that the distributions are not considered to be premature distributions for federal income tax purposes;
9 or

10 (e) amounts received from fully matured, privately purchased annuity contracts after cessation of regular
11 employment.

12 (25) "Purposely" is as defined in 45-2-101.

13 (26) "Received", for the purpose of computation of taxable income under this chapter, means received
14 or accrued, and the term "received or accrued" must be construed according to the method of accounting upon
15 the basis of which the taxable income is computed under this chapter.

16 (27) "Resident" applies only to natural persons and includes, for the purpose of determining liability to
17 the tax imposed by this chapter with reference to the income of any taxable year, any person domiciled in the
18 state of Montana and any other person who maintains a permanent place of abode within the state even though
19 temporarily absent from the state and who has not established a residence elsewhere.

20 (28) "S. corporation" means an incorporated entity for which a valid election under section 1362 of the
21 Internal Revenue Code (26 U.S.C. 1362) is in effect.

22 (29) "Stock dividends" means new stock issued, for surplus or profits capitalized, to shareholders in
23 proportion to their previous holdings.

24 (30) "Taxable income" means the adjusted gross income of a taxpayer less the deductions and
25 exemptions provided for in this chapter.

26 (31) ~~"Taxable year" or "tax~~ "Tax year" means the taxpayer's taxable year for federal income tax
27 purposes.

28 (32) "Taxpayer" includes any person, entity, or fiduciary, resident or nonresident, subject to a tax or other
29 obligation imposed by this chapter and unless otherwise specifically provided does not include a C. corporation."

30

Section 73. Section 15-30-103, MCA, is amended to read:

"15-30-103. Rate of tax. (1) ~~There shall~~ A tax must be levied, collected, and paid for each ~~taxable tax~~ year ~~commencing on or after December 31, 1968~~, upon the taxable income of ~~every~~ each taxpayer subject to this tax, after making allowance for exemptions and deductions as ~~hereinafter~~ provided in this chapter, ~~a tax on~~ the following brackets of taxable income, as adjusted under subsection (2), at the following rates:

(a) on the first ~~\$1,000~~ \$14,000 of taxable income or any part ~~thereof of that amount~~, ~~2%~~ 3%;

(b) on the next ~~\$1,000~~ \$36,000 of taxable income or any part ~~thereof of that amount~~, ~~3%~~ 5%;

(c) on the next ~~\$2,000~~ of taxable income or any part thereof, ~~4%~~;

~~———— (d) on the next \$2,000 of taxable income or any part thereof, 5%;~~

~~———— (e) on the next \$2,000 of taxable income or any part thereof, 6%;~~

~~———— (f) on the next \$2,000 of taxable income or any part thereof, 7%;~~

~~———— (g) on the next \$4,000 of taxable income or any part thereof, 8%;~~

~~———— (h) on the next \$6,000 of taxable income or any part thereof, 9%;~~

~~———— (i) on the next \$15,000 of taxable income or any part thereof, 10%;~~

~~———— (j) on any taxable income in excess of \$35,000~~ \$50,000 ~~or any part thereof, 11%~~ 7%.

(2) By November 1 of each year, the department shall multiply the bracket amount contained in subsection (1) by the inflation factor for that ~~taxable tax~~ year and round the cumulative brackets to the nearest \$100. The resulting adjusted brackets are effective for that ~~taxable tax~~ year and ~~shall~~ must be used as the basis for imposition of the tax in subsection (1) ~~of this section.~~"

Section 74. Section 15-36-324, MCA, is amended to read:

"15-36-324. (Temporary) Distribution of taxes -- rules. (1) For each calendar quarter, the department shall determine the amount of tax, late payment interest, and penalty collected under this part. For purposes of distribution of the taxes to county and school taxing units, the department shall determine the amount of oil and natural gas production taxes paid on production in the taxing unit.

(2) Except as provided in subsections (3) through (5), oil production taxes must be distributed as follows:

(a) The amount equal to 39.3% of the oil production taxes, including late payment interest and penalty, collected under this part must be distributed as provided in subsection (9).

(b) The remaining 60.7% of the oil production taxes, plus accumulated interest earned on the amount

1 allocated under this subsection (2)(b), must be deposited in the state special revenue fund in the state treasury
2 and transferred to the county and school taxing units for distribution as provided in subsection (12).

3 (3) The amount equal to 100% of the oil production taxes, including late payment interest and penalty,
4 collected from working interest owners on qualifying production occurring during the first 12 months of production
5 must be distributed as provided in subsection (10).

6 (4) (a) The amount equal to 100% of the oil production taxes, including late payment interest and
7 penalty, collected from working interest owners on production from horizontally completed wells occurring during
8 the first 18 months of production must be distributed as provided in subsection (10).

9 (b) The amount equal to 100% of the oil production taxes, including late payment interest and penalty,
10 collected from working interest owners on the incremental production from horizontally recompleted wells
11 occurring during the first 18 months of production must be distributed as provided in subsection (9).

12 (5) (a) The amount equal to 13.8% of the oil production taxes, including late payment interest and
13 penalty, collected from working interest owners on the first 10 barrels of stripper oil production wells must be
14 distributed as provided in subsection (10).

15 (b) The remaining 86.2% of the oil production taxes, plus accumulated interest earned on the amount
16 allocated under this subsection (5)(b), must be deposited in the state special revenue fund in the state treasury
17 and transferred to the county and school taxing units for distribution as provided in subsection (12).

18 (c) The amount equal to 100% of the oil production taxes, including late payment interest and penalty,
19 collected from working interest owners on stripper well exemption production from pre-1999 wells and post-1999
20 wells must be distributed as provided in subsection (10).

21 (6) Except as provided in subsections (7) and (8), natural gas production taxes must be allocated as
22 follows:

23 (a) The amount equal to 14% of the natural gas production taxes, including late payment interest and
24 penalty, collected under this part must be distributed as provided in subsection (11).

25 (b) The remaining 86% of the natural gas production taxes, plus accumulated interest earned on the
26 amount allocated under this subsection (6)(b), must be deposited in the state special revenue fund in the state
27 treasury and transferred to the county and school taxing units for distribution as provided in subsection (12).

28 (7) The amount equal to 100% of the natural gas production taxes, including late payment interest and
29 penalty, collected from working interest owners under this part on production from wells occurring during the first
30 12 months of production must be distributed as provided in subsection (10).

(8) The amount equal to 100% of natural gas production taxes, including late payment interest and penalty, collected from working interest owners on production from horizontally completed wells occurring during the first 18 months of production must be distributed as provided in subsection (10).

(9) The department shall, in accordance with the provisions of 15-1-501, distribute the state portion of oil production taxes specified in subsections (2)(a) and (4)(b), including late payment interest and penalty collected, as follows:

(a) 86.21% to the state general fund;

(b) 5.17% to the state special revenue fund for the purpose of paying expenses of the board as provided in 82-11-135; and

(c) 8.62% to be distributed as follows:

(i) a total of \$400,000, including the proceeds from subsections (10)(b)(i) and (11)(c)(i), to the coal bed methane protection account established in 76-15-904;

(ii) for the fiscal year ending June 30, 2003, all of the remaining proceeds to the state general fund;

(iii) for the fiscal years beginning on or after July 1, 2003, 50% of the remaining proceeds to the reclamation and development grants special revenue account established in 90-2-1104; and

(iv) for the fiscal years beginning on or after July 1, 2003, 50% of the remaining proceeds to the orphan share account established in 75-10-743.

(10) The department shall distribute the state portion of oil and natural gas production taxes specified in subsections (3), (4)(a), (5)(a), (5)(c), (7), and (8), including late payment interest and penalty collected, as follows:

(a) 37.5% to the state special revenue fund for the purpose of paying expenses of the board as provided in 82-11-135; and

(b) 62.5% to be distributed as follows:

(i) a total of \$400,000, including the proceeds from subsections (9)(c)(i) and (11)(c)(i), to the coal bed methane protection account established in 76-15-904;

(ii) for the fiscal year ending June 30, 2003, all of the remaining proceeds to the state general fund;

(iii) for the fiscal years beginning on or after July 1, 2003, 50% of the remaining proceeds to the reclamation and development grants special revenue account established in 90-2-1104; and

(iv) for the fiscal years beginning on or after July 1, 2003, 50% of the remaining proceeds to the orphan share account established in 75-10-743.

(11) The department shall, in accordance with the provisions of 15-1-501, distribute the state portion of natural gas production taxes specified in subsection (6)(a), including late payment interest and penalty collected, as follows:

(a) 76.8% to the state general fund;

(b) 8.7% to the state special revenue fund for the purpose of paying expenses of the board as provided in 82-11-135; and

(c) 14.5% to be distributed as follows:

(i) a total of \$400,000, including the proceeds from subsections (9)(c)(i) and (10)(b)(i), to the coal bed methane protection account established in 76-15-904;

(ii) for the fiscal year ending June 30, 2003, all of the remaining proceeds to the state general fund;

(iii) for the fiscal years beginning on or after July 1, 2003, 50% of the remaining proceeds to the reclamation and development grants special revenue account established in 90-2-1104; and

(iv) for the fiscal years beginning on or after July 1, 2003, 50% of the remaining proceeds to the orphan share account established in 75-10-743.

(12) (a) By the dates referred to in subsection (13), the department shall, except as provided in subsection (12)(b), calculate and distribute oil and natural gas production taxes received under subsections (2)(b), (5)(b), and (6)(b) to each eligible county in proportion to the oil and natural gas production taxes received under subsections (2)(b), (5)(b), and (6)(b) that are attributable to production in that county.

(b) The department shall distribute 5% of the oil and natural gas production taxes received under subsections (2)(b), (5)(b), and (6)(b) from pre-1999 wells to eligible counties in proportion to the underfunding that would have occurred from the tax liability distribution of pre-1985 oil and natural gas production taxes for production in calendar year 1997.

(c) Except as provided in subsection (12)(d), the county treasurer shall distribute the money received under subsection (12)(b) to the taxing units that levied mills in fiscal year 1990 against calendar year 1988 production in the same manner that all other property tax proceeds were distributed during fiscal year 1990 in the taxing unit, except that a distribution may not be made to a municipal taxing unit.

(d) The board of county commissioners of a county may direct the county treasurer to reallocate the distribution of oil and natural gas production tax money that would have gone to a taxing unit, as provided in subsection (12)(c), to another taxing unit or taxing units, other than an elementary school or high school, within the county under the following conditions:

1 (i) The county treasurer shall first allocate the oil and natural gas production taxes to the taxing units
2 within the county in the same proportion that all other property tax proceeds were distributed in the county in
3 fiscal year 1990.

4 (ii) If the allocation in subsection (12)(d)(i) exceeds the total budget for a taxing unit, the commissioners
5 may direct the county treasurer to allocate the excess to any taxing unit within the county.

6 (e) The board of trustees of an elementary or high school district may reallocate the oil and natural gas
7 production taxes distributed to the district by the county treasurer under the following conditions:

8 (i) The district shall first allocate the oil and natural gas production taxes to the budgeted funds of the
9 district in the same proportion that all other property tax proceeds were distributed in the district in fiscal year
10 1990.

11 (ii) If the allocation under subsection (12)(e)(i) exceeds the total budget for a fund, the trustees may
12 allocate the excess to any budgeted fund of the school district.

13 (f) The county treasurer shall distribute oil and natural gas production taxes received under subsection
14 (12)(a) between county and school taxing units in the relative proportions required by the levies for ~~state~~, county;
15 and school district purposes in the same manner as property taxes were distributed in the preceding fiscal year.

16 (g) The allocation to the county in subsection (12)(f) must be distributed by the county treasurer in the
17 relative proportions required by the levies for county taxing units and in the same manner as property taxes were
18 distributed in the preceding fiscal year.

19 (h) The money distributed in subsection (12)(f) that is required for the county mill levies for school
20 district retirement obligations and transportation schedules must be deposited to the funds established for these
21 purposes.

22 ~~(i) The oil and natural gas production taxes distributed under subsection (12)(c) that are required for~~
23 ~~the 6-mill university levy imposed under 20-25-423 and for the county equalization levies imposed under~~
24 ~~20-9-331 and 20-9-333, as those sections read on July 1, 1989, must be remitted by the county treasurer to the~~
25 ~~department.~~

26 ~~(j) The oil and natural gas production taxes distributed under subsection (12)(f) that are required for the~~
27 ~~6-mill university levy imposed under 20-25-423, for the county equalization levies imposed under 20-9-331 and~~
28 ~~20-9-333, and for the state equalization aid levy imposed under 20-9-360 must be remitted by the county~~
29 ~~treasurer to the department.~~

30 ~~_____ (k) The amount of oil and natural gas production taxes remaining after the treasurer has remitted the~~

~~amounts determined in subsections (12)(i) and (12)(j) is for the exclusive use and benefit of the county and school taxing units.~~

(13) The department shall remit the amounts to be distributed in subsection (12) to the county treasurer by the following dates:

(a) On or before August 1 of each year, the department shall remit to the county treasurer oil and natural gas production tax payments received for the calendar quarter ending March 31 of the current year.

(b) On or before November 1 of each year, the department shall remit to the county treasurer oil and natural gas production tax payments received for the calendar quarter ending June 30 of the current year.

(c) On or before February 1 of each year, the department shall remit to the county treasurer oil and natural gas production tax payments received for the calendar quarter ending September 30 of the previous year.

(d) On or before May 1 of each year, the department shall remit to the county treasurer oil and natural gas production tax payments received for the calendar quarter ending December 31 of the previous calendar year.

(14) The department shall provide to each county by May 31 of each year the amount of gross taxable value represented by all types of production taxed under 15-36-304 for the previous calendar year multiplied by 60%. The resulting value must be treated as taxable value for county classification purposes.

(15) (a) In the event that the board revises the privilege and license tax pursuant to 82-11-131, the department shall, by rule, change the formula under this section for distribution of taxes collected under 15-36-304. The revised formula must provide for the distribution of taxes in an amount equal to the rate adopted by the board for its expenses.

(b) Before the department adopts a rule pursuant to subsection (15)(a), it shall present the proposed rule to the appropriate administrative rule review committee.

(16) The distribution to taxing units under this section is statutorily appropriated as provided in 17-7-502. (Terminates June 30, 2011--sec. 10, Ch. 531, L. 2001; sec. 8(2), Ch. 12, Sp. L. August 2002.)

15-36-324. (Effective July 1, 2011) Distribution of taxes -- rules. (1) For each calendar quarter, the department shall determine the amount of tax, late payment interest, and penalty collected under this part. For purposes of distribution of the taxes to county and school taxing units, the department shall determine the amount of oil and natural gas production taxes paid on production in the taxing unit.

(2) Except as provided in subsections (3) through (5), oil production taxes must be distributed as

1 follows:

2 (a) The amount equal to 39.3% of the oil production taxes, including late payment interest and penalty,
3 collected under this part must be distributed as provided in subsection (9).

4 (b) The remaining 60.7% of the oil production taxes, plus accumulated interest earned on the amount
5 allocated under this subsection (2)(b), must be deposited in the state special revenue fund in the state treasury
6 and transferred to the county and school taxing units for distribution as provided in subsection (12).

7 (3) The amount equal to 100% of the oil production taxes, including late payment interest and penalty,
8 collected from working interest owners on qualifying production occurring during the first 12 months of production
9 must be distributed as provided in subsection (10).

10 (4) (a) The amount equal to 100% of the oil production taxes, including late payment interest and
11 penalty, collected from working interest owners on production from horizontally completed wells occurring during
12 the first 18 months of production must be distributed as provided in subsection (10).

13 (b) The amount equal to 100% of the oil production taxes, including late payment interest and penalty,
14 collected from working interest owners on the incremental production from horizontally recompleted wells
15 occurring during the first 18 months of production must be distributed as provided in subsection (9).

16 (5) (a) The amount equal to 13.8% of the oil production taxes, including late payment interest and
17 penalty, collected from working interest owners on the first 10 barrels of stripper oil production wells must be
18 distributed as provided in subsection (10).

19 (b) The remaining 86.2% of the oil production taxes, plus accumulated interest earned on the amount
20 allocated under this subsection (5)(b), must be deposited in the state special revenue fund in the state treasury
21 and transferred to the county and school taxing units for distribution as provided in subsection (12).

22 (c) The amount equal to 100% of the oil production taxes, including late payment interest and penalty,
23 collected from working interest owners on stripper well exemption production from pre-1999 wells and post-1999
24 wells must be distributed as provided in subsection (10).

25 (6) Except as provided in subsections (7) and (8), natural gas production taxes must be allocated as
26 follows:

27 (a) The amount equal to 14% of the natural gas production taxes, including late payment interest and
28 penalty, collected under this part must be distributed as provided in subsection (11).

29 (b) The remaining 86% of the natural gas production taxes, plus accumulated interest earned on the
30 amount allocated under this subsection (6)(b), must be deposited in the state special revenue fund in the state

1 treasury and transferred to the county and school taxing units for distribution as provided in subsection (12).

2 (7) The amount equal to 100% of the natural gas production taxes, including late payment interest and
3 penalty, collected from working interest owners under this part on production from wells occurring during the first
4 12 months of production must be distributed as provided in subsection (10).

5 (8) The amount equal to 100% of natural gas production taxes, including late payment interest and
6 penalty, collected from working interest owners on production from horizontally completed wells occurring during
7 the first 18 months of production must be distributed as provided in subsection (10).

8 (9) The department shall, in accordance with the provisions of 15-1-501, distribute the state portion of
9 oil production taxes specified in subsections (2)(a) and (4)(b), including late payment interest and penalty
10 collected, as follows:

11 (a) 86.21% to the state general fund;

12 (b) 5.17% to the state special revenue fund for the purpose of paying expenses of the board as provided
13 in 82-11-135; and

14 (c) 8.62% to be distributed as follows:

15 (i) 50% to the resource indemnity trust fund of the nonexpendable trust fund type;

16 (ii) 25% to the reclamation and development grants special revenue account established in 90-2-1104;
17 and

18 (iii) 25% to the orphan share account established in 75-10-743.

19 (10) The department shall distribute the state portion of oil and natural gas production taxes specified
20 in subsections (3), (4)(a), (5)(a), (5)(c), (7), and (8), including late payment interest and penalty collected, as
21 follows:

22 (a) 37.5% to the state special revenue fund for the purpose of paying expenses of the board as provided
23 in 82-11-135; and

24 (b) 62.5% to be distributed as follows:

25 (i) 50% to the resource indemnity trust fund of the nonexpendable trust fund type;

26 (ii) 25% to the reclamation and development grants special revenue account established by 90-2-1104;
27 and

28 (iii) 25% to the orphan share account established in 75-10-743.

29 (11) The department shall, in accordance with the provisions of 15-1-501, distribute the state portion of
30 natural gas production taxes specified in subsection (6)(a), including late payment interest and penalty collected,

as follows:

(a) 76.8% to the state general fund;

(b) 8.7% to the state special revenue fund for the purpose of paying expenses of the board as provided in 82-11-135; and

(c) 14.5% to be distributed as follows:

(i) 50% to the resource indemnity trust fund of the nonexpendable trust fund type;

(ii) 25% to the reclamation and development grants special revenue account established in 90-2-1104;

and

(iii) 25% to the orphan share account established in 75-10-743.

(12) (a) By the dates referred to in subsection (13), the department shall, except as provided in subsection (12)(b), calculate and distribute oil and natural gas production taxes received under subsections (2)(b), (5)(b), and (6)(b) to each eligible county in proportion to the oil and natural gas production taxes received under subsections (2)(b), (5)(b), and (6)(b) that are attributable to production in that county.

(b) The department shall distribute 5% of the oil and natural gas production taxes received under subsections (2)(b), (5)(b), and (6)(b) from pre-1999 wells to eligible counties in proportion to the underfunding that would have occurred from the tax liability distribution of pre-1985 oil and natural gas production taxes for production in calendar year 1997.

(c) Except as provided in subsection (12)(d), the county treasurer shall distribute the money received under subsection (12)(b) to the taxing units that levied mills in fiscal year 1990 against calendar year 1988 production in the same manner that all other property tax proceeds were distributed during fiscal year 1990 in the taxing unit, except that a distribution may not be made to a municipal taxing unit.

(d) The board of county commissioners of a county may direct the county treasurer to reallocate the distribution of oil and natural gas production tax money that would have gone to a taxing unit, as provided in subsection (12)(c), to another taxing unit or taxing units, other than an elementary school or high school, within the county under the following conditions:

(i) The county treasurer shall first allocate the oil and natural gas production taxes to the taxing units within the county in the same proportion that all other property tax proceeds were distributed in the county in fiscal year 1990.

(ii) If the allocation in subsection (12)(d)(i) exceeds the total budget for a taxing unit, the commissioners may direct the county treasurer to allocate the excess to any taxing unit within the county.

1 (e) The board of trustees of an elementary or high school district may reallocate the oil and natural gas
2 production taxes distributed to the district by the county treasurer under the following conditions:

3 (i) The district shall first allocate the oil and natural gas production taxes to the budgeted funds of the
4 district in the same proportion that all other property tax proceeds were distributed in the district in fiscal year
5 1990.

6 (ii) If the allocation under subsection (12)(e)(i) exceeds the total budget for a fund, the trustees may
7 allocate the excess to any budgeted fund of the school district.

8 (f) The county treasurer shall distribute oil and natural gas production taxes received under subsection
9 (12)(a) between county and school taxing units in the relative proportions required by the levies for ~~state~~, county;
10 and school district purposes in the same manner as property taxes were distributed in the preceding fiscal year.

11 (g) The allocation to the county in subsection (12)(f) must be distributed by the county treasurer in the
12 relative proportions required by the levies for county taxing units and in the same manner as property taxes were
13 distributed in the preceding fiscal year.

14 (h) The money distributed in subsection (12)(f) that is required for the county mill levies for school
15 district retirement obligations and transportation schedules must be deposited to the funds established for these
16 purposes.

17 ~~(i) The oil and natural gas production taxes distributed under subsection (12)(c) that are required for~~
18 ~~the 6-mill university levy imposed under 20-25-423 and for the county equalization levies imposed under~~
19 ~~20-9-331 and 20-9-333, as those sections read on July 1, 1989, must be remitted by the county treasurer to the~~
20 ~~department.~~

21 ~~———(j) The oil and natural gas production taxes distributed under subsection (12)(f) that are required for the~~
22 ~~6-mill university levy imposed under 20-25-423, for the county equalization levies imposed under 20-9-331 and~~
23 ~~20-9-333, and for the state equalization aid levy imposed under 20-9-360 must be remitted by the county~~
24 ~~treasurer to the department.~~

25 ~~———(k) The amount of oil and natural gas production taxes remaining after the treasurer has remitted the~~
26 ~~amounts determined in subsections (12)(i) and (12)(j) is for the exclusive use and benefit of the county and~~
27 ~~school taxing units.~~

28 (13) The department shall remit the amounts to be distributed in subsection (12) to the county treasurer
29 by the following dates:

30 (a) On or before August 1 of each year, the department shall remit to the county treasurer oil and natural

gas production tax payments received for the calendar quarter ending March 31 of the current year.

(b) On or before November 1 of each year, the department shall remit to the county treasurer oil and natural gas production tax payments received for the calendar quarter ending June 30 of the current year.

(c) On or before February 1 of each year, the department shall remit to the county treasurer oil and natural gas production tax payments received for the calendar quarter ending September 30 of the previous year.

(d) On or before May 1 of each year, the department shall remit to the county treasurer oil and natural gas production tax payments received for the calendar quarter ending December 31 of the previous calendar year.

(14) The department shall provide to each county by May 31 of each year the amount of gross taxable value represented by all types of production taxed under 15-36-304 for the previous calendar year multiplied by 60%. The resulting value must be treated as taxable value for county classification purposes.

(15) (a) In the event that the board revises the privilege and license tax pursuant to 82-11-131, the department shall, by rule, change the formula under this section for distribution of taxes collected under 15-36-304. The revised formula must provide for the distribution of taxes in an amount equal to the rate adopted by the board for its expenses.

(b) Before the department adopts a rule pursuant to subsection (15)(a), it shall present the proposed rule to the appropriate administrative rule review committee.

(16) The distribution to taxing units under this section is statutorily appropriated as provided in 17-7-502."

NEW SECTION. Section 75. Low-income tax credit. (1) An eligible individual is allowed a tax credit against the taxes imposed by 15-30-103. The amount of the credit under this section is the amount of the individual's income tax liability.

(2) (a) To be eligible for the credit under this section, the adjusted gross income of a single person must be \$14,000 or less and for a married couple or head of household, the adjusted gross income must be \$28,000 or less. The income levels must be adjusted for inflation annually by the department. The adjustment to the income levels is determined by:

(i) multiplying the appropriate dollar amount in subsection (2) by the ratio of the PCE for the second quarter of the year prior to the year of application to the PCE for the second quarter of 2003; and

(ii) rounding the product thus obtained to the nearest whole dollar amount.

(b) "PCE" means the implicit price deflator for personal consumption expenditures as published quarterly in the Survey of Current Business by the bureau of economic analysis of the U.S. department of commerce.

(3) A nonresident or a resident for part of a year shall determine adjusted gross income as if the nonresident or part-time resident was a resident during the entire tax year.

Section 76. Section 17-3-213, MCA, is amended to read:

"17-3-213. Allocation of forest reserve funds and other federal funds -- options provided in federal law. (1) The board of county commissioners in each county shall decide among payment options provided in subsections (2) through (4), as provided in Public Law 106-393, to determine how the forest reserve funds and Public Law 106-393 funds apportioned to each county must be distributed by the county treasurer pursuant to this section.

(2) If a board of county commissioners chooses to receive a payment that is 25% of the revenue derived from national forest system lands, as provided in 16 U.S.C. 500, all funds received must be distributed as provided in subsection (5).

(3) (a) Except as provided in subsection (4), if a county elects to receive the county's full payment under Public Law 106-393, a minimum of 80% up to a maximum of 85% of the county's full payment must be designated by the county for distribution as provided in subsection (5).

(b) The balance not distributed pursuant to subsection (3)(a) may be allocated by the county in accordance with Public Law 106-393.

(4) If a county's full payment is less than \$100,000, the county may elect to distribute up to 100% of the payment as provided in subsection (5).

(5) The total amount designated by a county in accordance with subsection (3)(a) or (4) must be distributed as follows:

(a) to the general road fund, 66 2/3% of the amount designated;

(b) to the following countywide school levies, 33 1/3% of the amount designated:

(i) county equalization for elementary schools provided for in 20-9-331;

(ii) county equalization for high schools provided for in 20-9-333;

(iii) the county transportation fund provided for in 20-10-146; and

(iv) the elementary and high school district retirement fund obligations provided for in 20-9-501.

(6) The apportionment of money to the funds provided for under subsection (5)(b) must be made by the county superintendent based on the proportion that the mill levy of each fund bears to the total number of mills for all the funds. Whenever the total amount of money available for apportionment under subsection (5)(b) is greater than the total requirements of a levy, the excess money and any interest income must be retained in a separate reserve fund, to be reapportioned in the ensuing school fiscal year to the levies designated in subsection (5)(b).

(7) In counties in which special road districts have been created according to law, the board of county commissioners shall distribute a proportionate share of the 66 2/3% distributed under subsection (5)(b) for the general road fund to the special road districts within the county based upon the percentage that the total area of the road district bears to the total area of the entire county."

Section 77. Section 17-7-301, MCA, is amended to read:

"17-7-301. Authorization to expend during first year of biennium from appropriation for second year -- proposed supplemental appropriation defined -- limit on second-year expenditures. (1) An agency may make expenditures during the first fiscal year of the biennium from appropriations for the second fiscal year of the biennium if authorized by the general appropriations act. An agency that is not authorized in the general appropriations act to make first-year expenditures may be granted spending authorization by the approving authority upon submission and approval of a proposed supplemental appropriation to the approving authority. The proposal submitted to the approving authority must include a plan for reducing expenditures in the second year of the biennium that allows the agency to contain expenditures within appropriations. If the approving authority finds that, ~~due to~~ because of an unforeseen and unanticipated emergency, the amount actually appropriated for the first fiscal year of the biennium with all other income will be insufficient for the operation and maintenance of the agency during the year for which the appropriation was made, the approving authority shall, after careful study and examination of the request and upon review of the recommendation for executive branch proposals by the budget director, submit the proposed supplemental appropriation to the legislative fiscal analyst.

(2) The plan for reducing expenditures required by subsection (1) is not required if the proposed supplemental appropriation is:

(a) due to an unforeseen and unanticipated emergency for fire suppression;

(b) requested by the superintendent of public instruction, in accordance with the provisions of 20-9-351,

1 and is to complete the state's funding of ~~guaranteed tax base aid~~, transportation aid, or equalization aid to
2 elementary and secondary schools for the current biennium; or

3 (c) requested by the attorney general and:

4 (i) is to pay the costs associated with litigation in which the department of justice is required to provide
5 representation to the state of Montana; or

6 (ii) in accordance with the provisions of 7-32-2242, is to pay costs for which the department of justice
7 is responsible for confinement of an arrested person in a detention center.

8 (3) Upon receipt of the recommendation of the legislative finance committee pursuant to 17-7-311, the
9 approving authority may authorize an expenditure during the first fiscal year of the biennium to be made from
10 the appropriation for the second fiscal year of the biennium. Except as provided in subsection (2), the approving
11 authority shall require the agency to implement the plan for reducing expenditures in the second year of the
12 biennium that contains agency expenditures within appropriations.

13 (4) The agency may expend the amount authorized by the approving authority only for the purposes
14 specified in the authorization.

15 (5) The approving authority shall report to the next legislature in a special section of the budget the
16 amounts expended as a result of all authorizations granted by the approving authority and shall request that any
17 necessary supplemental appropriation bills be passed.

18 (6) As used in this part, "proposed supplemental appropriation" means an application for authorization
19 to make expenditures during the first fiscal year of the biennium from appropriations for the second fiscal year
20 of the biennium.

21 (7) (a) Except as provided in subsections (2) and (7)(b), an agency may not make expenditures in the
22 second year of the biennium that, if carried on for the full year, will require a deficiency appropriation, commonly
23 referred to as a "supplemental appropriation".

24 (b) An agency shall prepare and, to the extent feasible, implement a plan for reducing expenditures in
25 the second year of the biennium that contains agency expenditures within appropriations. The approving
26 authority is responsible for ensuring the implementation of the plan. If, in the second year of a biennium,
27 mandated expenditures that are required by state or federal law will cause an agency to exceed appropriations
28 or available funds, the agency shall reduce all nonmandated expenditures pursuant to the plan in order to reduce
29 to the greatest extent possible the expenditures in excess of appropriations or funding. An agency may not
30 transfer funds between fund types in order to implement a plan."

1
2 **Section 78.** Section 20-3-106, MCA, is amended to read:

3 **"20-3-106. Supervision of schools -- powers and duties.** The superintendent of public instruction has
4 the general supervision of the public schools and districts of the state and shall perform the following duties or
5 acts in implementing and enforcing the provisions of this title:

6 (1) resolve any controversy resulting from the proration of costs by a joint board of trustees under the
7 provisions of 20-3-362;

8 (2) issue, renew, or deny teacher certification and emergency authorizations of employment;

9 (3) negotiate reciprocal tuition agreements with other states in accordance with the provisions of
10 20-5-314;

11 (4) approve or disapprove the opening or reopening of a school in accordance with the provisions of
12 20-6-502, 20-6-503, 20-6-504, or 20-6-505;

13 (5) approve or disapprove school isolation within the limitations prescribed by 20-9-302;

14 (6) generally supervise the school budgeting procedures prescribed by law in accordance with the
15 provisions of 20-9-102 and prescribe the school budget format in accordance with the provisions of 20-9-103
16 and 20-9-506;

17 (7) establish a system of communication for calculating joint district revenue in accordance with the
18 provisions of 20-9-151;

19 (8) approve or disapprove the adoption of a district's budget amendment resolution under the conditions
20 prescribed in 20-9-163 and adopt rules for an application for additional direct state aid for a budget amendment
21 in accordance with the approval and disbursement provisions of 20-9-166;

22 (9) generally supervise the school financial administration provisions as prescribed by 20-9-201(2);

23 (10) prescribe and furnish the annual report forms to enable the districts to report to the county
24 superintendent in accordance with the provisions of 20-9-213(6) and the annual report forms to enable the
25 county superintendents to report to the superintendent of public instruction in accordance with the provisions
26 of 20-3-209;

27 (11) approve, disapprove, or adjust an increase of the average number belonging (ANB) in accordance
28 with the provisions of 20-9-313 and 20-9-314;

29 (12) distribute BASE aid and special education allowable cost payments in support of the BASE funding
30 program in accordance with the provisions of 20-9-331, 20-9-333, 20-9-342, 20-9-346, 20-9-347, and 20-9-366

1 through 20-9-369;

2 (13) provide for the uniform and equal provision of transportation by performing the duties prescribed
3 by the provisions of 20-10-112;

4 (14) request, accept, deposit, and expend federal money in accordance with the provisions of 20-9-603;

5 (15) authorize the use of federal money for the support of an interlocal cooperative agreement in
6 accordance with the provisions of 20-9-703 and 20-9-704;

7 (16) prescribe the form and contents of and approve or disapprove interstate contracts in accordance
8 with the provisions of 20-9-705;

9 (17) approve or disapprove the conduct of school on a Saturday in accordance with the provisions of
10 20-1-303;

11 (18) recommend standards of accreditation for all schools to the board of public education and evaluate
12 compliance with the standards and recommend accreditation status of every school to the board of public
13 education in accordance with the provisions of 20-7-101 and 20-7-102;

14 (19) collect and maintain a file of curriculum guides and assist schools with instructional programs in
15 accordance with the provisions of 20-7-113 and 20-7-114;

16 (20) establish and maintain a library of visual, aural, and other educational media in accordance with
17 the provisions of 20-7-201;

18 (21) license textbook dealers and initiate prosecution of textbook dealers violating the law in accordance
19 with the provisions of the textbooks part of this title;

20 (22) as the governing agent and executive officer of the state of Montana for K-12 career and
21 vocational/technical education, adopt the policies prescribed by and in accordance with the provisions of
22 20-7-301;

23 (23) supervise and coordinate the conduct of special education in the state in accordance with the
24 provisions of 20-7-403;

25 (24) administer the traffic education program in accordance with the provisions of 20-7-502;

26 (25) administer the school food services program in accordance with the provisions of 20-10-201 through
27 20-10-203;

28 (26) review school building plans and specifications in accordance with the provisions of 20-6-622;

29 (27) prescribe the method of identification and signals to be used by school safety patrols in accordance
30 with the provisions of 20-1-408;

(28) provide schools with information and technical assistance for compliance with the student assessment rules provided for in 20-2-121 and collect and summarize the results of the student assessment for the board of public education and the legislature;

(29) upon request and in compliance with confidentiality requirements of state and federal law, disclose to interested parties all school district student assessment data for a test required by the board of public education;

(30) administer the distribution of guaranteed tax base aid for retirement and facilities in accordance with 20-9-366 through 20-9-369; and

(31) perform any other duty prescribed from time to time by this title, any other act of the legislature, or the policies of the board of public education."

Section 79. Section 20-5-323, MCA, is amended to read:

"20-5-323. Tuition and transportation rates. (1) Except as provided in subsections (2) through (5), whenever a child has approval to attend a school outside of the child's district of residence under the provisions of 20-5-320 or 20-5-321, the rate of tuition charged for a Montana resident student may not exceed 20% of the per-ANB maximum rate established in 20-9-306 for the year of attendance.

(2) The tuition for a child with a disability must be determined under rules adopted by the superintendent of public instruction for the calculation of tuition for special education pupils.

(3) The tuition rate for out-of-district placement pursuant to 20-5-321(1)(d) and (1)(e) for a student without disabilities who requires a program with costs that exceed the average district costs must be determined as the actual individual costs of providing that program according to the following:

(a) the district of attendance and the district, person, or entity responsible for the tuition payments shall approve an agreement with the district of attendance for the tuition cost;

(b) for a Montana resident student, 80% of the maximum per-ANB rate established in 20-9-306(4)(9), received in the year for which the tuition charges are calculated must be subtracted from the per-student program costs for a Montana resident student; and

(c) the maximum tuition rate paid to a district under this section may not exceed \$2,500 per ANB.

(4) When a child attends a public school of another state or province, the amount of daily tuition may not be greater than the average annual cost for each student in the child's district of residence. This calculation for tuition purposes is determined by totaling all of the expenditures for all of the district budgeted funds for the

preceding school fiscal year and dividing that amount by the October 1 enrollment in the preceding school fiscal year. For the purposes of this subsection, the following do not apply:

(a) placement of a child with a disability pursuant to Title 20, chapter 7, part 4;

(b) placement made in a state or province with a reciprocal tuition agreement pursuant to 20-5-314;

(c) an order issued under Title 40, chapter 4, part 2; or

(d) out-of-state placement by a state agency.

(5) When a child is placed by a state agency in an out-of-state residential facility, the state agency making the placement is responsible for the education costs resulting from the placement.

(6) The amount, if any, charged for transportation may not exceed the lesser of the average transportation cost for each student in the child's district of residence or 25 cents a mile. The average expenditures for the district transportation fund for the preceding school fiscal year must be calculated by dividing the transportation fund expenditures by the October 1 enrollment for the preceding fiscal year."

Section 80. Section 20-5-324, MCA, is amended to read:

"20-5-324. Tuition report and payment provisions -- exemption. (1) At the close of the school term of each school fiscal year and before July 15, the trustees of a district shall report to the county superintendent:

(a) the name and district of residence of each child who is attending a school of the district under a mandatory out-of-district attendance agreement approved under the provisions of 20-5-321(1)(b), (1)(d), or (1)(e);

(b) the number of days of enrollment for each child reported under the provisions of subsection (1)(a);

(c) the annual tuition rate for each child's tuition payment, as determined under the provisions of 20-5-323, and the tuition cost for each reported child; and

(d) the names, districts of attendance, and amount of tuition to be paid by the district for resident students attending public schools out of state.

(2) The county superintendent shall send, as soon as practicable, the reported information to the county superintendent of the county in which a reported child resides.

(3) Before July 30, the county superintendent shall report the information in subsection (1)(d) to the superintendent of public instruction, who shall determine the total per-ANB entitlement for which the district would be eligible if the student were enrolled in the resident district. The reimbursement amount is the difference between the actual amount paid and the amount calculated in this subsection.

(4) Notwithstanding the requirements of subsection (5)(a), tuition payment provisions for out-of-district placement of students with disabilities must be determined pursuant to Title 20, chapter 7, part 4.

(5) (a) When a child has approval to attend a school outside the child's district of residence under the provisions of 20-5-320 or 20-5-321(1)(a) or (1)(b), the district of residence shall finance the tuition amount from the district tuition fund and any transportation amount from the transportation fund.

(b) When a child has approval to attend a school outside the child's district of residence under the provisions of 20-5-321(1)(c), the parent or guardian of the child shall finance the tuition and transportation amount.

(6) When a child has mandatory approval under the provisions of 20-5-321(1)(d) or (1)(e), the tuition and transportation obligation for an elementary school child attending a school outside of the child's district of residence must be financed by the ~~basic county tax for elementary~~ BASE funding program for equalization, as provided in 20-9-331, for the child's county of residence or for a high school child attending a school outside the district of residence by the ~~basic county tax for high school~~ BASE funding program for equalization, as provided in 20-9-333, for the child's county of residence.

(7) By December 31 of the school fiscal year, the county superintendent or the trustees shall pay at least one-half of any tuition and transportation obligation established under this section out of the money realized to date from the appropriate elementary or high school county equalization fund provided for in 20-9-335 or from the district tuition or transportation fund. The remaining tuition and transportation obligation must be paid by June 15 of the school fiscal year. The payments must be made to the county treasurer in each county with a school district that is entitled to tuition and transportation. Except as provided in subsection (9), the county treasurer shall credit tuition receipts to the general fund of a school district entitled to a tuition payment. The tuition receipts must be used in accordance with the provisions of 20-9-141. The county treasurer shall credit transportation receipts to the transportation fund of a school district entitled to a transportation payment.

(8) The superintendent of public instruction shall reimburse the district of residence for the per-ANB entitlement determined in subsection (3).

(9) (a) Any tuition receipts received under the provisions of 20-5-323(3) for the current school fiscal year that exceed the tuition receipts of the prior year may be deposited in the district miscellaneous programs fund and must be used for that year in the manner provided for in 20-9-507 to support the costs of the program for which the tuition was received.

(b) Any tuition receipts received for the current school fiscal year for a pupil who is a child with a

1 disability that exceed the tuition amount received for a pupil without disabilities may be deposited in the district
2 miscellaneous programs fund and must be used for that year in the manner provided for in 20-9-507 to support
3 the costs of the program for which the tuition was received.

4 (c) Any other tuition receipts received for the current school fiscal year that exceed the tuition receipts
5 of the prior year may be deposited in the district miscellaneous programs fund and may be used for that year
6 in the manner provided for in that fund. For the ensuing school fiscal year, the receipts must be credited to the
7 district general fund budget.

8 (10) The provisions of this section do not apply to out-of-state placements made by a state agency
9 pursuant to 20-7-422."

10
11 **Section 81.** Section 20-6-702, MCA, is amended to read:

12 **"20-6-702. Funding for K-12 school districts.** (1) Notwithstanding the provisions of subsections (2)
13 through (6), a K-12 school district formed under the provisions of 20-6-701 is subject to the provisions of law for
14 high school districts.

15 (2) The number of elected trustees of the K-12 school district must be based on the classification of the
16 attached elementary district under the provisions of 20-3-341 and 20-3-351.

17 (3) Calculations for the following must be made separately for the elementary school program and the
18 high school program of a K-12 school district:

19 (a) the calculation of ANB for purposes of determining the total per-ANB entitlements must be in
20 accordance with the provisions of 20-9-311; and

21 (b) ~~the basic county tax for elementary equalization and~~ revenue for the elementary BASE funding
22 program for the district must be determined in accordance with the provisions of 20-9-331, and ~~the basic county~~
23 ~~tax for high school equalization and~~ revenue for the high school BASE funding program for the district must be
24 determined in accordance with the provisions of 20-9-333; and

25 ~~(c) the guaranteed tax base aid for BASE funding program purposes for a K-12 school district must be~~
26 ~~calculated separately, using each district's guaranteed tax base ratio, as defined in 20-9-366. The BASE budget~~
27 ~~levy to be levied for the K-12 school district must be prorated based on the ratio of the BASE funding program~~
28 ~~amounts for elementary school programs to the BASE funding program amounts for high school programs.~~

29 (4) The retirement obligation and eligibility for retirement guaranteed tax base aid for a K-12 school
30 district must be calculated and funded as a high school district retirement obligation under the provisions of

1 20-9-501.

2 (5) For the purposes of budgeting for a K-12 school district, the trustees shall adopt a single fund for
3 any of the budgeted or nonbudgeted funds described in 20-9-201 for the costs of operating all grades and
4 programs of the district.

5 (6) Tuition for attendance in the K-12 school district must be determined separately for high school
6 pupils and for elementary pupils under the provisions of 20-5-320 through 20-5-324, except that the actual
7 expenditures used for calculations in 20-5-323 must be based on an amount prorated between the elementary
8 and high school programs in the appropriate funds of each district in the year prior to the attachment of the
9 districts."

10

11 **Section 82.** Section 20-7-102, MCA, is amended to read:

12 **"20-7-102. Accreditation of schools.** (1) The conditions under which each elementary school, each
13 middle school, each junior high school, 7th and 8th grades funded at high school rates, and each high school
14 operates must be reviewed by the superintendent of public instruction to determine compliance with the
15 standards of accreditation. The accreditation status of every school must then be established by the board of
16 public education upon the recommendation of the superintendent of public instruction. Notification of the
17 accreditation status for the applicable school year or years must be given to each district by the superintendent
18 of public instruction.

19 (2) A school may be accredited for a period consisting of 1, 2, 3, 4, or 5 school years, except that
20 multiyear accreditation may only be granted to schools that are in compliance with 20-4-101.

21 (3) A nonpublic school may, through its governing body, request that the board of public education
22 accredit the school. Nonpublic schools may be accredited in the same manner as provided in subsection (1).

23 (4) As used in this section, "7th and 8th grades funded at high school rates" means an elementary
24 school district or K-12 district elementary program whose 7th and 8th grades are funded as provided in
25 20-9-306(10)(e)(i)(9)(c)(i)."

26

27 **Section 83.** Section 20-9-141, MCA, is amended to read:

28 **"20-9-141. Computation of general fund net levy requirement by county superintendent.** (1) The
29 county superintendent shall compute the levy requirement for each district's general fund on the basis of the
30 following procedure:

(a) Determine the funding required for the district's final general fund budget less the sum of direct state aid and the special education allowable cost payment for the district by totaling:

(i) the district's nonisolated school BASE budget requirement to be met by a district levy as provided in 20-9-303; and

(ii) any general fund budget amount adopted by the trustees of the district under the provisions of 20-9-308 and 20-9-353, including any additional funding for a general fund budget that exceeds the maximum general fund budget.

(b) Determine the money available for the reduction of the property tax on the district for the general fund by totaling:

(i) the general fund balance reappropriated, as established under the provisions of 20-9-104;

(ii) amounts received in the last fiscal year for which revenue reporting was required for each of the following:

(A) interest earned by the investment of general fund cash in accordance with the provisions of 20-9-213(4); and

(B) any other revenue received during the school fiscal year that may be used to finance the general fund, ~~excluding any guaranteed tax base aid~~;

(iii) anticipated oil and natural gas production taxes;

(iv) pursuant to subsection ~~(4)~~ (3), anticipated revenue from coal gross proceeds under 15-23-703; and

(v) school district block grants distributed under section 244, Chapter 574, Laws of 2001.

(c) ~~Notwithstanding the provisions of subsection (2), subtract~~ Subtract the money available to reduce the property tax required to finance the general fund that has been determined in subsection (1)(b) from any general fund budget amount adopted by the trustees of the district, up to the BASE budget amount, to determine the general fund BASE budget levy requirement.

(d) Determine the sum of any amount remaining after the determination in subsection (1)(c) and any tuition payments for out-of-district pupils to be received under the provisions of 20-5-320 through 20-5-324, except the amount of tuition received for a pupil who is a child with a disability in excess of the amount received for a pupil without disabilities, as calculated under 20-5-323(2).

(e) Subtract the amount determined in subsection (1)(d) from any additional funding requirement to be met by an over-BASE budget amount, a district levy as provided in 20-9-303, and any additional financing as provided in 20-9-353 to determine any additional general fund levy requirements.

~~(2) The county superintendent shall calculate the number of mills to be levied on the taxable property in the district to finance the general fund levy requirement for any amount that does not exceed the BASE budget amount for the district by dividing the amount determined in subsection (1)(c) by the sum of:~~

~~——— (a) the amount of guaranteed tax base aid that the district will receive for each mill levied, as certified by the superintendent of public instruction; and~~

~~——— (b) the current total taxable valuation of the district, as certified by the department of revenue under 15-10-202, divided by 1,000.~~

~~(3)(2)~~ The net general fund levy requirement determined in subsections (1)(c) and (1)(d) must be reported to the county commissioners on the fourth Monday of August by the county superintendent as the general fund net levy requirement for the district, and a levy must be set by the county commissioners in accordance with 20-9-142.

~~(4)(3)~~ For each school district, the department of revenue shall calculate and report to the county superintendent the amount of revenue anticipated for the ensuing fiscal year from revenue from coal gross proceeds under 15-23-703."

Section 84. Section 20-9-212, MCA, is amended to read:

"20-9-212. Duties of county treasurer. The county treasurer of each county:

(1) must receive and shall hold all school money subject to apportionment and keep a separate accounting of its apportionment to the several districts that are entitled to a portion of the money according to the apportionments ordered by the county superintendent or by the superintendent of public instruction. A separate accounting must be maintained for each county fund supported by a countywide levy for a specific, authorized purpose, including:

(a) the ~~basic county tax~~ revenue sources for elementary equalization;

(b) the ~~basic county tax~~ revenue sources for high school equalization;

(c) the county tax in support of the transportation schedules;

(d) the county tax in support of the elementary and high school district retirement obligations; and

(e) any other county tax for schools, including the community colleges, that may be authorized by law and levied by the county commissioners.

(2) whenever requested, shall notify the county superintendent and the superintendent of public instruction of the amount of county school money on deposit in each of the funds enumerated in subsection (1)

1 and the amount of any other school money subject to apportionment and apportion the county and other school
2 money to the districts in accordance with the apportionment ordered by the county superintendent or the
3 superintendent of public instruction;

4 (3) shall keep a separate accounting of the receipts, expenditures, and cash balances for each fund;

5 (4) except as otherwise limited by law, shall pay all warrants properly drawn on the county or district
6 school money;

7 (5) must receive all revenue collected by and for each district and shall deposit these receipts in the
8 fund designated by law or by the district if a fund is not designated by law. Interest and penalties on delinquent
9 school taxes must be credited to the same fund and district for which the original taxes were levied.

10 (6) shall send all revenue received for a joint district, part of which is situated in the county, to the county
11 treasurer designated as the custodian of the revenue, no later than December 15 of each year and every 3
12 months after that date until the end of the school fiscal year;

13 (7) at the direction of the trustees of a district, shall assist the district in the issuance and sale of tax and
14 revenue anticipation notes as provided in Title 7, chapter 6, part 11;

15 (8) shall register district warrants drawn on a budgeted fund in accordance with 7-6-2604 when there
16 is insufficient money available in all funds of the district to make payment of the warrant. Redemption of
17 registered warrants must be made in accordance with 7-6-2116, 7-6-2605, and 7-6-2606.

18 (9) when directed by the trustees of a district, shall invest the money of the district within 3 working days
19 of the direction;

20 (10) each month, shall give to the trustees of each district an itemized report for each fund maintained
21 by the district, showing the paid warrants, registered warrants, interest distribution, amounts and types of
22 revenue received, and the cash balance;

23 (11) shall remit promptly to the department of revenue receipts for the county tax for a
24 vocational-technical program within a unit of the university system when levied by the board of county
25 commissioners under the provisions of 20-25-439;

26 (12) shall invest the money received ~~from the basic county taxes~~ for elementary and high school
27 equalization, the county levy in support of the elementary and high school district retirement obligations, and the
28 county levy in support of the transportation schedules within 3 working days of receipt. The money must be
29 invested until the working day before it is required to be distributed to school districts within the county or
30 remitted to the state. Permissible investments are specified in 20-9-213(4). All investment income must be

deposited, and credited proportionately, in the funds established to account for the taxes received for the purposes specified in subsections (1)(a) through (1)(d).

~~———— (13) shall remit on a monthly basis to the department of revenue, as provided in 15-1-504, all county equalization revenue received under the provisions of 20-9-331 and 20-9-333, including all interest earned and excluding any amount required for tuition paid under the provisions of 20-5-324(6) or (7), in repayment of the state advance for county equalization prescribed in 20-9-347. Any funds in excess of a state advance must be used as required in 20-9-331(1)(b) and 20-9-333(1)(b)."~~

Section 85. Section 20-9-306, MCA, is amended to read:

"20-9-306. Definitions. As used in this title, unless the context clearly indicates otherwise, the following definitions apply:

(1) "BASE" means base amount for school equity.

(2) "BASE aid" means:

~~———— (a) direct state aid for 44.7% 80% of the basic entitlement, and 44.7% 80% of the total per-ANB entitlement, and 40% of the special education allowable cost payments for the general fund budget of a district; and~~

~~———— (b) guaranteed tax base aid for an eligible district for any amount up to 35.3% of the basic entitlement, up to 35.3% of the total per-ANB entitlement budgeted in the general fund budget of a district, and up to 40% of the special education allowable cost payment.~~

(3) "BASE budget" means the minimum general fund budget of a district, which includes 80% of the basic entitlement, 80% of the total per-ANB entitlement, and up to 140% of the special education allowable cost payment.

~~(4) "BASE budget levy" means the district levy in support of the BASE budget of a district, which may be supplemented by guaranteed tax base aid if the district is eligible under the provisions of 20-9-366 through 20-9-369.~~

~~(5)~~(4) "BASE funding program" means the state program for the equitable distribution of the state's share of the cost of Montana's basic system of public elementary schools and high schools, through county equalization aid collected from the sales tax and use tax under and distributed as provided in 20-9-331 and 20-9-333 and state equalization aid as provided in 20-9-343, in support of the BASE budgets of districts and special education allowable cost payments as provided in 20-9-321.

~~(6)~~(5) "Basic entitlement" means:

(a) \$213,819 for each high school district;

(b) \$19,244 for each elementary school district or K-12 district elementary program without an approved and accredited junior high school or middle school; and

(c) the prorated entitlement for each elementary school district or K-12 district elementary program with an approved and accredited junior high school or middle school, calculated as follows:

(i) \$19,244 times the ratio of the ANB for kindergarten through grade 6 to the total ANB of kindergarten through grade 8; plus

(ii) \$213,819 times the ratio of the ANB for grades 7 and 8 to the total ANB of kindergarten through grade 8.

~~(7)~~(6) "Direct state aid" means ~~44.7% 80%~~ of the basic entitlement, ~~and 44.7% 80%~~ of the total per-ANB entitlement, and 40% of the special education allowable cost payments for the general fund budget of a district and funded with state and county equalization aid.

~~(8)~~(7) "Maximum general fund budget" means a district's general fund budget amount calculated from the basic entitlement for the district, the total per-ANB entitlement for the district, and the greater of:

(a) 175% of special education allowable cost payments; or

(b) the ratio, expressed as a percentage, of the district's special education allowable cost expenditures to the district's special education allowable cost payment for the fiscal year that is 2 years previous, with a maximum allowable ratio of 200%.

~~(9)~~(8) "Over-BASE budget levy" means the district levy in support of any general fund amount budgeted that is above the BASE budget and below the maximum general fund budget for a district.

~~(10)~~(9) "Total per-ANB entitlement" means the district entitlement resulting from the following calculations:

(a) for a high school district or a K-12 district high school program, a maximum rate of \$5,205 for the first ANB is decreased at the rate of 50 cents per ANB for each additional ANB of the district up through 800 ANB, with each ANB in excess of 800 receiving the same amount of entitlement as the 800th ANB;

(b) for an elementary school district or a K-12 district elementary program without an approved and accredited junior high school or middle school, a maximum rate of \$3,906 for the first ANB is decreased at the rate of 20 cents per ANB for each additional ANB of the district up through 1,000 ANB, with each ANB in excess of 1,000 receiving the same amount of entitlement as the 1,000th ANB; and

(c) for an elementary school district or a K-12 district elementary program with an approved and accredited junior high school or middle school, the sum of:

(i) a maximum rate of \$3,906 for the first ANB for kindergarten through grade 6 is decreased at the rate of 20 cents per ANB for each additional ANB up through 1,000 ANB, with each ANB in excess of 1,000 receiving the same amount of entitlement as the 1,000th ANB; and

(ii) a maximum rate of \$5,205 for the first ANB for grades 7 and 8 is decreased at the rate of 50 cents per ANB for each additional ANB for grades 7 and 8 up through 800 ANB, with each ANB in excess of 800 receiving the same amount of entitlement as the 800th ANB."

Section 86. Section 20-9-307, MCA, is amended to read:

"20-9-307. BASE funding program -- district general fund budget -- funding sources. (1) A basic system of free quality public elementary schools and high schools must be established and maintained throughout the state of Montana to provide equality of educational opportunity to all school-age children.

(2) The state shall in an equitable manner fund and distribute to the school districts the state's share of the cost of the basic school system through BASE aid to support the BASE funding program in the manner established in this title.

(3) The budgetary vehicle for achieving the financing system established in subsection (2) is the general fund budget of the school district. The purpose of the district general fund budget is to finance those instructional, administrative, facility maintenance, and other operational costs of a district not financed by other funds established for special purposes in this title.

(4) The BASE funding program for the districts in the state is financed by a combination of the following sources:

(a) ~~county~~ equalization money from collections of the sales tax and use tax distributed under [section 62], as provided in 20-9-331 and 20-9-333;

(b) state equalization aid, as provided in 20-9-343, ~~including guaranteed tax base aid for eligible districts as provided in 20-9-366 through 20-9-369;~~

(c) appropriations for special education;

(d) a district levy, as provided in 20-9-303, for support of a school not approved as an isolated school under the provisions of 20-9-302; and

(e) district levies or other revenue, as provided by 20-9-308 and 20-9-353."

1
2 **Section 87.** Section 20-9-308, MCA, is amended to read:

3 **"20-9-308. BASE budgets and maximum general fund budgets.** (1) The trustees of a district shall
4 adopt a general fund budget that is at least equal to the BASE budget established for the district and, except as
5 provided in subsection (3), does not exceed the maximum general fund budget established for the district.

6 (2) Whenever the trustees of a district adopt a general fund budget that exceeds the BASE budget for
7 the district but does not exceed the maximum general fund budget for the district, the trustees shall submit a
8 proposition to the electors of the district, as provided in 20-9-353.

9 (3) (a) (i) Except as provided in subsection (3)(a)(ii), the trustees of a school district whose previous
10 year's general fund budget exceeds the current year's maximum general fund budget amount may adopt a
11 general fund budget up to the maximum general fund budget amount or the previous year's general fund budget,
12 whichever is greater. A school district may adopt a budget under the criteria of this subsection (3)(a)(i) for a
13 maximum of 5 consecutive years, but the trustees shall adopt a plan to reach the maximum general fund budget
14 by no later than the end of the 5-year period. A school district whose adopted general fund budget for the
15 previous year exceeds the maximum general fund budget for the current year and whose ANB for the previous
16 year exceeds the ANB for the current year by 30% or more shall reduce its adopted budget by:

17 (A) in the first year, 20% of the range between the district's adopted general fund budget for the
18 previous school fiscal year and the maximum general fund budget for the current school fiscal year;

19 (B) in the second year, 25% of the range between the district's adopted general fund budget for the
20 previous school fiscal year and the maximum general fund budget for the current school fiscal year;

21 (C) in the third year, 33.3% of the range between the district's adopted general fund budget for the
22 previous school fiscal year and the maximum general fund budget for the current school fiscal year;

23 (D) in the fourth year, 50% of the range between the district's adopted general fund budget for the
24 previous school fiscal year and the maximum general fund budget for the current school fiscal year; and

25 (E) in the fifth year, the remainder of the range between the district's adopted general fund budget for
26 the previous school fiscal year and the maximum general fund budget for the current school fiscal year.

27 (ii) The trustees of a district whose general fund budget was above the maximum general fund budget
28 established by Chapter 38, Special Laws of November 1993, and whose general fund budget has continued to
29 exceed the district's maximum general fund budget in each school fiscal year after school fiscal year 1993 may
30 continue to adopt a general fund budget that exceeds the maximum general fund budget. However, the budget

adopted for the current year may not exceed the lesser of:

(A) the adopted budget for the previous year; or

(B) the district's maximum general fund budget for the current year plus the over maximum budget amount adopted for the previous year.

(b) The trustees of the district shall submit a proposition to raise any general fund budget amount that is in excess of the maximum general fund budget for the district to the electors who are qualified under 20-20-301 to vote on the proposition, as provided in 20-9-353.

(4) The BASE budget for the district must be financed by the following sources of revenue:

(a) state equalization aid, as provided in 20-9-343; ~~including any guaranteed tax base aid for which the district may be eligible, as provided in 20-9-366 through 20-9-369;~~

(b) ~~county~~ sales tax and use tax equalization aid, as provided in 20-9-331 and 20-9-333;

(c) a district levy for support of a school not approved as an isolated school under the provisions of 20-9-302;

(d) payments in support of special education programs under the provisions of 20-9-321; and

(e) nonlevy revenue, as provided in 20-9-141; ~~and~~

(f) ~~a BASE budget levy on the taxable value of all property within the district.~~

(5) The over-BASE budget amount of a district must be financed by a levy on the taxable value of all property within the district or other revenue available to the district, as provided in 20-9-141."

Section 88. Section 20-9-331, MCA, is amended to read:

"20-9-331. ~~Basic county tax~~ Sales tax funding for elementary equalization and other revenue for county equalization of elementary BASE funding program. (1) ~~Subject to 15-10-420, the county commissioners of each county shall levy an annual basic county tax of 33 mills on the dollar of the taxable value of all taxable property within the county, except for property subject to a tax or fee under 23-2-517, 23-2-803, 61-3-521, 61-3-527, 61-3-529, 61-3-537, 61-3-560 through 61-3-562, 61-3-570, and 67-3-204, There must be appropriated from the special revenue account established for the collection of sales tax and use tax in [section 62] sufficient funds for the purposes of elementary equalization and state BASE funding program support. The revenue collected from this levy funds must be apportioned to the support of the elementary BASE funding programs of the school districts in the county, and to the state general fund in the following manner:~~

~~— (a) In order to determine the amount of revenue raised by this levy that is retained by the county, the~~

1 ~~sum of the estimated revenue identified in subsection (2) must be subtracted from the total of the BASE funding~~
2 ~~programs of all elementary districts of the county.~~

3 ~~—— (b) If the basic levy and other revenue prescribed by this section produce more revenue than is required~~
4 ~~to repay a state advance for county equalization, the county treasurer shall remit the surplus funds to the~~
5 ~~department of revenue, as provided in 15-1-504, for deposit to the state general fund immediately upon~~
6 ~~occurrence of a surplus balance and each subsequent month, with any final remittance due no later than June~~
7 ~~20 of the fiscal year for which the levy has been set.~~

8 (2) The revenue realized from the county's portion of the levy prescribed by this section and the revenue
9 from the following sources must be used for the equalization of the elementary BASE funding program of the
10 county as prescribed in 20-9-335, and a separate accounting must be kept of the revenue by the county
11 treasurer in accordance with 20-9-212(1):

12 (a) the portion of the federal Taylor Grazing Act funds distributed to a county and designated for the
13 elementary county equalization fund under the provisions of 17-3-222;

14 (b) the portion of the federal flood control act funds distributed to a county and designated for
15 expenditure for the benefit of the county common schools under the provisions of 17-3-232;

16 (c) all money paid into the county treasury as a result of fines for violations of law, except money paid
17 to a justice's court, and the use of which is not otherwise specified by law;

18 (d) any money remaining at the end of the immediately preceding school fiscal year in the county
19 treasurer's accounts for the various sources of revenue established or referred to in this section;

20 (e) any federal or state money distributed to the county as payment in lieu of property taxation, including
21 federal forest reserve funds allocated under the provisions of 17-3-213;

22 (f) gross proceeds taxes from coal under 15-23-703; and

23 (g) oil and natural gas production taxes."
24

25 **Section 89.** Section 20-9-333, MCA, is amended to read:

26 **"20-9-333. ~~Basic county tax~~ Sales tax funding for high school equalization and other revenue for**
27 **county equalization of high school BASE funding program.** (1) ~~Subject to 15-10-420, the county~~
28 ~~commissioners of each county shall levy an annual basic county tax of 22 mills on the dollar of the taxable value~~
29 ~~of all taxable property within the county, except for property subject to a tax or fee under 23-2-517, 23-2-803,~~
30 ~~61-3-521, 61-3-527, 61-3-529, 61-3-537, 61-3-560 through 61-3-562, 61-3-570, and 67-3-204, There must be~~

1 appropriated from the special revenue account established for the collection of sales tax and use tax in [section
2 62] sufficient funds for the purposes of high school equalization and state BASE funding program support. The
3 ~~revenue collected from this levy funds~~ must be apportioned to the support of the BASE funding programs of high
4 school districts in the county, ~~and to the state general fund in the following manner:~~

5 ~~—— (a) In order to determine the amount of revenue raised by this levy that is retained by the county, the~~
6 ~~sum of the estimated revenue identified in subsection (2) must be subtracted from the sum of the county's high~~
7 ~~school tuition obligation and the total of the BASE funding programs of all high school districts of the county.~~

8 ~~—— (b) If the basic levy and other revenue prescribed by this section produce more revenue than is required~~
9 ~~to repay a state advance for county equalization, the county treasurer shall remit the surplus funds to the~~
10 ~~department of revenue, as provided in 15-1-504, for deposit to the state general fund immediately upon~~
11 ~~occurrence of a surplus balance and each subsequent month, with any final remittance due no later than June~~
12 ~~20 of the fiscal year for which the levy has been set.~~

13 (2) The revenue realized from the county's portion of the levy prescribed in this section and the revenue
14 from the following sources must be used for the equalization of the high school BASE funding program of the
15 county as prescribed in 20-9-335, and a separate accounting must be kept of the revenue by the county
16 treasurer in accordance with 20-9-212(1):

17 (a) any money remaining at the end of the immediately preceding school fiscal year in the county
18 treasurer's accounts for the various sources of revenue established in this section;

19 (b) any federal or state money distributed to the county as payment in lieu of property taxation, including
20 federal forest reserve funds allocated under the provisions of 17-3-213;

21 (c) gross proceeds taxes from coal under 15-23-703; and

22 (d) oil and natural gas production taxes."

23
24 **Section 90.** Section 20-9-343, MCA, is amended to read:

25 **"20-9-343. Definition of and revenue for state equalization aid.** (1) As used in this title, the term
26 "state equalization aid" means revenue as required in this section for:

27 (a) ~~distribution to the public schools for guaranteed tax base aid, BASE aid, state reimbursement for~~
28 ~~school facilities, and grants for school technology purchases; and~~

29 (b) negotiated payments authorized under 20-7-420(3) up to \$500,000 a biennium.

30 (2) The superintendent of public instruction may spend throughout the biennium funds appropriated for

the purposes of ~~guaranteed tax base aid~~, BASE aid for the BASE funding program, state reimbursement for school facilities, negotiated payments authorized under 20-7-420(3), and school technology purchases.

~~—— (3) From July 1, 2001, through June 30, 2003, the following money must be paid into the guarantee account provided for in 20-9-622 for the public schools of the state as indicated:~~

~~—— (a) interest and income money described in 20-9-341 and 20-9-342; and~~

~~—— (b) investment income earned by investing interest and income money described in 20-9-341 and 20-9-342.~~

~~(4)(3)~~ Beginning July 1, 2003, the The following money must be paid into the guarantee account provided for in 20-9-622 for the public schools of the state as indicated:

(a) (i) subject to subsection ~~(4)(a)(ii)~~ (3)(a)(ii), interest and income money described in 20-9-341 and 20-9-342; and

(ii) an amount of money equal to the income money attributable to the difference between the average sale value of 18 million board feet and the total income produced from the annual timber harvest on common school trust lands during the fiscal year, which is statutorily appropriated, pursuant to 20-9-534, to be used for the purposes of 20-9-533;

(b) investment income earned by investing interest and income money described in 20-9-341 and 20-9-342."

Section 91. Section 20-9-344, MCA, is amended to read:

"20-9-344. Duties of board of public education for distribution of BASE aid. (1) The board of public education shall administer and distribute the BASE aid and state advances for county equalization in the manner and with the powers and duties provided by law. To this end, the board of public education shall:

(a) adopt policies for regulating the distribution of BASE aid and state advances for county equalization in accordance with the provisions of law;

(b) have the power to require reports from the county superintendents, budget boards, county treasurers, and trustees as it considers necessary; and

(c) order the superintendent of public instruction to distribute the BASE aid on the basis of each district's annual entitlement to the aid as established by the superintendent of public instruction. In ordering the distribution of BASE aid, the board of public education may not increase or decrease the BASE aid distribution to any district on account of any difference that may occur during the school fiscal year between budgeted and

1 actual receipts from any other source of school revenue.

2 (2) The board of public education may order the superintendent of public instruction to withhold
3 distribution of BASE aid from a district when the district fails to:

4 (a) submit reports or budgets as required by law or rules adopted by the board of public education; or

5 (b) maintain accredited status.

6 (3) Prior to any proposed order by the board of public education to withhold distribution of BASE aid or
7 county equalization money, the district is entitled to a contested case hearing before the board of public
8 education, as provided under the Montana Administrative Procedure Act.

9 (4) If a district or county receives more BASE aid than it is entitled to, the county treasurer shall return
10 the overpayment to the state upon the request of the superintendent of public instruction in the manner
11 prescribed by the superintendent of public instruction.

12 (5) Except as provided in 20-9-347(2), 10% of the BASE aid payment must be distributed ~~according to~~
13 ~~the following schedule:~~

14 ~~—— (a) monthly from August to October May of the school fiscal year, 10% of the direct state aid to each~~
15 ~~district;~~

16 ~~—— (b) from December to April of the school fiscal year, 10% of the direct state aid to each district;~~

17 ~~—— (c) in November of the school fiscal year, one-half of the guaranteed tax base aid payment to each~~
18 ~~district or county that has submitted a final budget to the superintendent of public instruction in accordance with~~
19 ~~the provisions of 20-9-134;~~

20 ~~—— (d) in May of the school fiscal year, the remainder of the guaranteed tax base aid payment to each~~
21 ~~district or county; and~~

22 ~~—— (e) in June of the school fiscal year, the remaining payment to each district of direct state aid.~~

23 (6) The distribution provided for in subsection (5) must occur by the last working day of each month."
24

25 **Section 92.** Section 20-9-347, MCA, is amended to read:

26 **"20-9-347. Distribution of BASE aid and special education allowable cost payments in support**
27 **of BASE funding program -- exceptions.** (1) The superintendent of public instruction shall:

28 (a) supply the county treasurer and the county superintendent with a monthly report of the payment of
29 BASE aid in support of the BASE funding program of each district of the county;

30 (b) in the manner described in 20-9-344, provide for a state advance to each county in an amount that

1 is no less than the amount anticipated to be ~~raised for~~ available through the elementary and high school county
2 equalization funds as provided in 20-9-331 and 20-9-333; and

3 (c) adopt rules to implement the provisions of subsection (1)(b).

4 (2) (a) The superintendent of public instruction is authorized to adjust the schedule prescribed in
5 20-9-344 for distribution of the BASE aid payments if the distribution will cause a district to register warrants
6 under the provisions of 20-9-212(8).

7 (b) To qualify for an adjustment in the payment schedule, a district shall demonstrate to the
8 superintendent of public instruction, in the manner required by the office, that the payment schedule prescribed
9 in 20-9-344 will result in insufficient money available in all funds of the district to make payment of the district's
10 warrants. The county treasurer shall confirm the anticipated deficit. This section may not be construed to
11 authorize the superintendent of public instruction to exceed a district's annual payment for BASE aid.

12 (3) The superintendent of public instruction shall:

13 (a) distribute special education allowable cost payments to districts; and

14 (b) supply the county treasurer and the county superintendent of schools with a report of payments for
15 special education allowable costs to districts of the county."
16

17 **Section 93.** Section 20-9-351, MCA, is amended to read:

18 **"20-9-351. Funding of deficiency in BASE aid.** If the money available for BASE aid is not the result
19 of a reduction in spending under 17-7-140 and is not sufficient to provide ~~the guaranteed tax base aid required~~
20 ~~under 20-9-366 through 20-9-369~~ and BASE aid support determined under 20-9-347, the superintendent of
21 public instruction shall request the budget director to submit a request for a supplemental appropriation in the
22 second year of the biennium that is sufficient to complete the funding of BASE aid for the elementary and high
23 school districts for the current biennium."
24

25 **Section 94.** Section 20-9-361, MCA, is amended to read:

26 **"20-9-361. County equalization ~~revenue~~ funds.** Revenue Funds received in support of county
27 equalization under the provisions of 20-9-331 and 20-9-333 ~~is to~~ must be used for county equalization aid for
28 the public schools, as provided by law, and must be accounted for in accordance with generally accepted
29 accounting principles."
30

1 **Section 95.** Section 20-9-366, MCA, is amended to read:

2 **"20-9-366. Definitions.** As used in 20-9-366 through 20-9-369, the following definitions apply:

3 (1) "County retirement mill value per elementary ANB" or "county retirement mill value per high school
4 ANB" means the sum of the taxable valuation in the previous year of all property in the county divided by 1,000,
5 with the quotient divided by the total county elementary ANB count or the total county high school ANB count
6 used to calculate the elementary school districts' and high school districts' current year total per-ANB entitlement
7 amounts.

8 ~~(2) (a) "District guaranteed tax base ratio" for guaranteed tax base funding for the BASE budget of an~~
9 ~~eligible district means the taxable valuation in the previous year of all property in the district divided by the sum~~
10 ~~of the district's current year BASE budget amount less direct state aid.~~

11 ~~(b)(2)~~ (2) "District mill value per ANB", for school facility entitlement purposes, means the taxable valuation
12 in the previous year of all property in the district divided by 1,000, with the quotient divided by the ANB count of
13 the district used to calculate the district's current year total per-ANB entitlement amount.

14 ~~(3) (a) "Statewide elementary guaranteed tax base ratio" or "statewide high school guaranteed tax base~~
15 ~~ratio", for guaranteed tax base funding for the BASE budget of an eligible district, means the sum of the taxable~~
16 ~~valuation in the previous year of all property in the state, multiplied by 175% and divided by the total sum of~~
17 ~~either the state elementary school districts' or the high school districts' current year BASE budget amounts less~~
18 ~~total direct state aid.~~

19 ~~(b)(3)~~ (3) "Statewide mill value per elementary ANB" or "statewide mill value per high school ANB", for
20 school facility entitlement and retirement guaranteed tax base purposes, means the sum of the taxable valuation
21 in the previous year of all property in the state, multiplied by 121% and divided by 1,000, with the quotient divided
22 by the total state elementary ANB count or the total state high school ANB amount used to calculate the
23 elementary school districts' and high school districts' current year total per-ANB entitlement amounts."
24

25 **Section 96.** Section 20-9-367, MCA, is amended to read:

26 **"20-9-367. Eligibility to receive guaranteed tax base retirement aid or state advance or**
27 **reimbursement for school facilities.** ~~(1) If the district guaranteed tax base ratio of any elementary or high~~
28 ~~school district is less than the corresponding statewide elementary or high school guaranteed tax base ratio, the~~
29 ~~district may receive guaranteed tax base aid based on the number of mills levied in the district in support of up~~
30 ~~to 35.3% of the basic entitlement, up to 35.3% of the total per-ANB entitlement, and up to 40% of the special~~

~~education allowable cost payment budgeted within the general fund budget.~~

~~(2)(1)~~ If the county retirement mill value per elementary ANB or the county retirement mill value per high school ANB is less than the corresponding statewide mill value per elementary ANB or high school ANB, the county may receive guaranteed tax base aid based on the number of mills levied in the county in support of the retirement fund budgets of the respective elementary or high school districts in the county.

~~(3)(2)~~ For the purposes of 20-9-370 and 20-9-371, if the district mill value per elementary ANB or the district mill value per high school ANB is less than the corresponding statewide mill value per elementary ANB or statewide mill value per high school ANB, the district may receive a state advance or reimbursement for school facilities in support of the debt service fund."

Section 97. Section 20-9-368, MCA, is amended to read:

"20-9-368. Amount of guaranteed tax base aid for retirement. (1) The amount of guaranteed tax base aid per ANB that a county may receive in support of the retirement fund budgets of the elementary school districts in the county is the difference between the county mill value per elementary ANB and the statewide mill value per elementary ANB, multiplied by the number of mills levied in support of the retirement fund budgets for the elementary districts in the county.

(2) The amount of guaranteed tax base aid per ANB that a county may receive in support of the retirement fund budgets of the high school districts in the county is the difference between the county mill value per high school ANB and the statewide mill value per high school ANB, multiplied by the number of mills levied in support of the retirement fund budgets for the high school districts in the county.

~~(3) The amount of guaranteed tax base aid that a district may receive in support of up to 35.3% of the basic entitlement, up to 35.3% of the total per ANB entitlement budgeted within the general fund budget, and up to 40% of the special education payment is calculated in the following manner:~~

~~—— (a) multiply the sum of the district's BASE budget amount less direct state aid by the corresponding statewide guaranteed tax base ratio;~~

~~—— (b) subtract the taxable valuation of the district from the product obtained in subsection (3)(a); and~~

~~—— (c) divide the remainder by 1,000 to determine the equivalent to the dollar amount of guaranteed tax base aid for each mill levied.~~

~~(4)(3)~~ Guaranteed tax base aid provided to any county or district under this section is earmarked to finance the fund or portion of the fund for which it is provided. If a county or district receives more guaranteed

1 tax base aid than it is entitled to, the excess must be returned to the state as required by 20-9-344."

2
3 **Section 98.** Section 20-9-369, MCA, is amended to read:

4 **"20-9-369. Duties of superintendent of public instruction and department of revenue.** (1) The
5 superintendent of public instruction shall administer the distribution of guaranteed tax base aid by:

6 ~~(a) providing each school district and county superintendent, by March 1 of each year, with the~~
7 ~~preliminary statewide and district guaranteed tax base ratios and, by May 1 of each year, with the final statewide~~
8 ~~and district guaranteed tax base ratios, for use in calculating the guaranteed tax base aid available for the~~
9 ~~ensuing school fiscal year;~~

10 ~~(b)(a)~~ providing each school district and county superintendent, by March 1 of each year, with the
11 preliminary statewide, county, and district mill values per ANB and, by May 1 of each year, with the final
12 statewide, county, and district mill values per ANB; for use in calculating the ~~guaranteed tax base aid and state~~
13 ~~advance and reimbursement for school facilities available to counties and districts for the ensuing school fiscal~~
14 ~~year;~~

15 ~~(e)(b)~~ requiring each county and district that qualifies and applies for ~~guaranteed tax base aid state~~
16 ~~advances and reimbursements for school facilities~~ to report to the county superintendent all budget and
17 accounting information required to administer the guaranteed tax base aid;

18 ~~(d)(c)~~ keeping a record of the complete data concerning appropriations available for ~~guaranteed tax~~
19 ~~base aid state advances and reimbursement for school facilities~~ and the entitlements for the aid of the counties
20 and districts that qualify;

21 ~~(e)(d)~~ distributing the ~~guaranteed tax base aid state advances and reimbursement for school facilities~~
22 entitlement to each qualified county or district from the appropriations for that purpose.

23 (2) The superintendent shall adopt rules necessary to implement 20-9-366 through 20-9-369.

24 (3) The department of revenue shall provide the superintendent of public instruction by December 1 of
25 each year a final determination of the taxable value of property within each school district and county of the state
26 reported to the department of revenue based on information delivered to the county clerk and recorder as
27 required in 15-10-305.

28 ~~(4) The superintendent of public instruction shall calculate the district and statewide guaranteed tax~~
29 ~~base ratios by applying the prior year's direct state aid payment."~~

1 **Section 99.** Section 20-9-501, MCA, is amended to read:

2 **"20-9-501. Retirement fund.** (1) The trustees of a district employing personnel who are members of
3 the teachers' retirement system or the public employees' retirement system or who are covered by
4 unemployment insurance or who are covered by any federal social security system requiring employer
5 contributions shall establish a retirement fund for the purposes of budgeting and paying the employer's
6 contributions to the systems. The district's contribution for each employee who is a member of the teachers'
7 retirement system must be calculated in accordance with Title 19, chapter 20, part 6. The district's contribution
8 for each employee who is a member of the public employees' retirement system must be calculated in
9 accordance with 19-3-316. The district's contributions for each employee covered by any federal social security
10 system must be paid in accordance with federal law and regulation. The district's contribution for each employee
11 who is covered by unemployment insurance must be paid in accordance with Title 39, chapter 51, part 11.

12 (2) The trustees of a district required to make a contribution to a system referred to in subsection (1)
13 shall include in the retirement fund of the final budget the estimated amount of the employer's contribution. After
14 the final retirement fund budget has been adopted, the trustees shall pay the employer contributions to the
15 systems in accordance with the financial administration provisions of this title.

16 (3) When the final retirement fund budget has been adopted, the county superintendent shall establish
17 the levy requirement by:

18 (a) determining the sum of the money available to reduce the retirement fund levy requirement by
19 adding:

20 (i) any anticipated money that may be realized in the retirement fund during the ensuing school fiscal
21 year;

22 (ii) oil and natural gas production taxes;

23 (iii) coal gross proceeds taxes under 15-23-703;

24 (iv) countywide school retirement block grants distributed under section 245, Chapter 574, Laws of 2001;

25 (v) any fund balance available for reappropriation as determined by subtracting the amount of the
26 end-of-the-year fund balance earmarked as the retirement fund operating reserve for the ensuing school fiscal
27 year by the trustees from the end-of-the-year fund balance in the retirement fund. The retirement fund operating
28 reserve may not be more than 35% of the final retirement fund budget for the ensuing school fiscal year and
29 must be used for the purpose of paying retirement fund warrants issued by the district under the final retirement
30 fund budget.

(vi) any other revenue anticipated that may be realized in the retirement fund during the ensuing school fiscal year, excluding any guaranteed tax base aid.

(b) notwithstanding the provisions of subsection (8), subtracting the money available for reduction of the levy requirement, as determined in subsection (3)(a), from the budgeted amount for expenditures in the final retirement fund budget.

(4) The county superintendent shall:

(a) total the net retirement fund levy requirements separately for all elementary school districts, all high school districts, and all community college districts of the county, including any prorated joint district or special education cooperative agreement levy requirements; and

(b) report each levy requirement to the county commissioners on the fourth Monday of August as the respective county levy requirements for elementary district, high school district, and community college district retirement funds.

(5) The county commissioners shall fix and set the county levy or district levy in accordance with 20-9-142.

(6) The net retirement fund levy requirement for a joint elementary district or a joint high school district must be prorated to each county in which a part of the district is located in the same proportion as the district ANB of the joint district is distributed by pupil residence in each county. The county superintendents of the counties affected shall jointly determine the net retirement fund levy requirement for each county as provided in 20-9-151.

(7) The net retirement fund levy requirement for districts that are members of special education cooperative agreements must be prorated to each county in which the district is located in the same proportion as the special education cooperative budget is prorated to the member school districts. The county superintendents of the counties affected shall jointly determine the net retirement fund levy requirement for each county in the same manner as provided in 20-9-151, and the county commissioners shall fix and levy the net retirement fund levy for each county in the same manner as provided in 20-9-152.

(8) The county superintendent shall calculate the number of mills to be levied on the taxable property in the county to finance the retirement fund net levy requirement by dividing the amount determined in subsection (4)(a) by the sum of:

(a) the amount of guaranteed tax base aid for retirement that the county will receive for each mill levied, as certified by the superintendent of public instruction; and

1 (b) the taxable valuation of the district divided by 1,000.

2 (9) The levy for a community college district may be applied only to property within the district."

3
4 **Section 100.** Section 90-6-304, MCA, is amended to read:

5 **"90-6-304. Accounts established.** (1) There is within the state agency fund type a hard-rock mining
6 impact account. Money is payable into this account from payments made by a mining developer in compliance
7 with the written guarantee from the developer to meet the increased costs of public services and facilities as
8 specified in the impact plan provided for in 90-6-307. The state treasurer shall draw warrants from this account
9 upon order of the board.

10 (2) There is within the state special revenue fund a hard-rock mining impact trust account. Within this
11 trust account, there is established a reserve account not to exceed \$100,000.

12 (a) Money within the hard-rock mining impact trust account may be used:

13 (i) for the administrative and operating expenses of the board, as provided by 90-6-303(4);

14 (ii) to establish and maintain the reserve account; and

15 (iii) for distribution to the counties of origin, as provided by 90-6-331 and this section.

16 (b) Money within the hard-rock mining impact trust reserve account may be used for the administrative
17 and operating expenses of the board if:

18 (i) the revenue provided under 15-37-117(1)(b) is less than the amount appropriated for the
19 administrative and operating expenses of the board; or

20 (ii) the use of the reserve account revenue is necessary to allow the board to meet its quasi-judicial
21 responsibilities under 90-6-307, 90-6-311, or 90-6-403~~(3)~~(2).

22 (3) Money is payable into the hard-rock mining impact trust account under the provisions of 15-37-117.
23 After first deducting the administrative and operating expenses of the board, as provided in 90-6-303, and then
24 establishing and maintaining the reserve account in the amount of \$100,000, as provided in subsection (2) of
25 this section, the remaining money must be segregated within the account by county of origin. The state treasurer
26 shall draw warrants from this account upon order of the board."

27
28 **Section 101.** Section 90-6-305, MCA, is amended to read:

29 **"90-6-305. Hard-rock mining impact board -- general powers.** (1) The board may:

30 (a) retain professional staff, including its administrative staff, and retain consultants and advisers,

1 notwithstanding the provisions of 2-15-121;

2 (b) adopt rules governing its proceedings, determinations, and administration of this part;

3 (c) make payments to local government units from money paid to the hard-rock mining impact account
4 as provided in 90-6-307;

5 (d) make determinations as provided in 90-6-307, 90-6-311, and 90-6-403~~(3)~~(2); and

6 (e) accept grants and other funds to be used in carrying out this part.

7 (2) The provisions of the Montana Administrative Procedure Act apply to the proceedings and
8 determinations of the board."

9
10 **Section 102.** Section 90-6-309, MCA, is amended to read:

11 **"90-6-309. Tax prepayment -- large-scale mineral development.** (1) After permission to commence
12 operation is granted by the appropriate governmental agency, and upon request of the governing body of a
13 county in which a facility is to be located, a person intending to construct or locate a large-scale mineral
14 development in this state shall prepay property taxes as specified in the impact plan. ~~This prepayment shall~~
15 ~~exclude the 6-mill university levy established under 20-25-423 and may exclude the mandatory county levies~~
16 ~~for the school BASE funding program established in 20-9-331 and 20-9-333.~~

17 (2) The person who is to prepay under this section is not obligated to prepay the entire amount
18 established in subsection (1) at one time. Upon request of the governing body of an affected local government
19 unit, the person shall prepay the amount shown to be needed from time to time as determined by the board.

20 (3) The person who is to prepay shall guarantee to the hard-rock mining impact board, through an
21 appropriate financial institution, as may be required by the board, that property tax prepayments will be paid as
22 needed for expenditures created by the impacts of the large-scale mineral development.

23 (4) When the mineral development facilities are completed and assessed by the department of revenue,
24 they are subject during the first 3 years and thereafter to taxation as all other property similarly situated, except
25 that in each year after the start of production, the local government unit that received a property tax prepayment
26 shall provide for repayment of prepaid property taxes in accordance with subsection (5).

27 (5) A local government unit that received all or a portion of the property tax prepayment under this
28 section shall provide for tax crediting as specified in the impact plan. The tax credit allowed in any year may not,
29 however, exceed the tax obligation of the developer for that year, and the time period for tax crediting is limited
30 to the productive life of the mining operation."

1
2 **Section 103.** Section 90-6-403, MCA, is amended to read:

3 **"90-6-403. Jurisdictional revenue disparity -- conditioned exemption and reallocation of certain**
4 **taxable valuation.** (1) When an impact plan for a large-scale mineral development approved pursuant to
5 90-6-307 identifies a jurisdictional revenue disparity, the board shall promptly notify the developer, all affected
6 local government units, and the department of revenue of the disparity. Except as provided in 90-6-404 and this
7 section, the increase in taxable valuation of the mineral development that occurs after the issuance and
8 validation of a permit under 82-4-335 is not subject to the usual application of county and school district property
9 tax mill levies. This increase in taxable valuation must be allocated to local government units as provided in
10 90-6-404. The increase in taxable valuation allocated as provided in 90-6-404 is subject to 15-10-420 and the
11 application of property tax mill levies in the local government unit to which it is allocated. The increase in taxable
12 valuation allocated to the local government unit is considered newly taxable property in the recipient local
13 government unit as provided in 15-10-420.

14 ~~(2) Subject to 15-10-420, the total taxable valuation of a large-scale mineral development remains~~
15 ~~subject to the statewide mill levies and basic county levies for elementary and high school BASE funding~~
16 ~~programs as provided in 20-9-331 and 20-9-333.~~

17 ~~(3)~~(2) The provisions of subsection (1) remain in effect until the large-scale mineral development ceases
18 operations or until the existence of the jurisdictional revenue disparity ceases, as determined by the board."
19

20 **Section 104.** Section 25, Chapter 13, Special Laws of August 2002, is amended to read:

21 **"Section 244. School district block grants.** (1) (a) ~~The~~ Except for the district general fund, the office
22 of public instruction shall provide a block grant to each school district based on the revenue received by each
23 district in fiscal year 2001 from vehicle taxes and fees, corporate license taxes paid by financial institutions,
24 aeronautics fees, state land payments in lieu of taxes, and property tax reimbursements pursuant to sections
25 167(1) through (5) and 169(6), Chapter 584, Laws of 1999.

26 (b) Block grants must be calculated using the electronic reporting system that is used by the office of
27 public instruction and school districts. The electronic reporting system must be used to allocate a portion of the
28 block grant amount into each district's fiscal year 2002 budget as an anticipated revenue source by fund, except
29 the district general fund.

30 (c) With the exception of vehicle taxes and fees, the office of public instruction shall use the amount

1 actually received from the sources listed in subsection (1)(a) in fiscal year 2001 in its calculation of the block
2 grant for fiscal year 2002 budgeting purposes. For vehicle taxes and fees, the office of public instruction shall
3 use 93.4% of the amount actually received in fiscal year 2001 in calculating the block grant for fiscal year 2002.

4 (2) If the ~~biennial~~ fiscal year 2003 appropriation provided in [section 248(1)] is insufficient to fund the
5 school district block grants in fiscal year 2003 at the fiscal year 2002 level, the office of public instruction shall
6 prorate the block grants to meet the remaining appropriation. School districts shall anticipate the prorated block
7 grant amounts provided by the office of public instruction in their budgets for fiscal year 2003.

8 (3) Each year, 70% of each district's block grant must be distributed in November and 30% of each
9 district's block grant must be distributed in May at the same time that guaranteed tax base aid is distributed. If
10 ~~the appropriation for block grants is greater than or less than the amount received by schools from the sources~~
11 ~~enumerated in subsection (1), the office of public instruction shall prorate the amount appropriated based upon~~
12 ~~the fiscal year 2001 revenue.~~

13 (4) The average ~~amount~~ of the block grants in fiscal years 2002 and 2003 must be increased by 0.76%
14 in fiscal year 2004 and in each succeeding fiscal year."

15
16 NEW SECTION. Section 105. Repealer. Sections 15-10-107, 20-9-360, and 20-25-423, MCA, are
17 repealed.

18
19 NEW SECTION. Section 106. Codification instruction. (1) [Sections 1 through 62] are intended to
20 be codified as an integral part of Title 15, and the provisions of Title 15 apply to [sections 1 through 62].

21 (2) [Section 75] is intended to be codified as an integral part of Title 15, chapter 30, and the provisions
22 of Title 15, chapter 30, apply to [section 75].

23
24 NEW SECTION. Section 107. Effective dates. (1) Except as provided in subsection (2), [this act] is
25 effective January 1, 2004.

26 (2) [Sections 78 through 99, 104, and 105] are effective July 1, 2004.

27
28 NEW SECTION. Section 108. Applicability. (1) [Sections 1 through 53] apply to sales of services and
29 tangible personal property after December 31, 2003.

30 (2) [Sections 73 and 75] apply to tax years beginning after December 31, 2003.

31 - END -